IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the "document") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

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, REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (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 UNAUTHORISED. 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 OR OTHER JURISDICTION OF THE UNITED STATES 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 BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB") OR ANOTHER APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THERE WILL BE NO PUBLIC OFFER IN 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 authorised 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.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Joint Bookrunners, as named in this document, nor any person who controls a Joint Bookrunner nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

Globaltrans Investment PLC

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

Offering of 18,679,143 Global Depositary Receipts
Offer Price: USD 8.50 per Global Depositary Receipt

This offering memorandum (the ***Offering Memorandum***) relates to an offering (the ***Offering***) of 18,679,143 global depositary receipts (***New GDRs***, and together with all currently existing global depositary receipts, the ***GDRs***), comprising (i) 11,764,705 New GDRs offered by Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus (***Globaltrans*** or the ***Company***), and (ii) 6,914,438 New GDRs offered by Transportation Investments Holding Limited, a company organised and existing under the laws of Cyprus (***TIHL*** or the ***Selling Shareholder***). The New GDRs represent interests in newly issued ordinary shares of the Company, each with a nominal value of USD 0.10 (the ***Ordinary Shares***), and each New GDR represents an interest in one Ordinary Share. The Ordinary Shares underlying the New GDRs being sold by TIHL are being issued to TIHL in connection with the Contribution, as described herein. Entities controlled by the beneficial owners of Envesta Investments Ltd. (***EIL***), which prior to the Offering was the beneficial owner of 19.5 per cent. of the Ordinary Shares, are acquiring 430,000 New GDRs in the Offering.

The Offering comprises (i) an offering of New 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 New GDRs (the ***Regulation S GDRs***) outside the United States in reliance on Regulation S (***Regulation S***) under the Securities Act.

In addition, the Selling Shareholder has granted to Deutsche Bank AG, London Branch, Morgan Stanley & Co. International plc and VTB Capital plc (together the ***Joint Bookrunners***) an option exercisable by Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc (together, the ***Joint Global Coordinators***) within 30 days of the announcement of the offer price (the ***Offer Price***) to purchase up to 1,867,914 additional New GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the ***Over-Allotment Option***).

The New 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 New 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 New GDRs are subject to selling and transfer restrictions in certain jurisdictions (see "Selling and Transfer Restrictions").

The New 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 8 for a discussion of certain matters that prospective investors should consider prior to making an investment in the New GDRs.

The Financial Services Authority (the ***FSA***) in its capacity as competent authority under the Financial Services and Markets Act 2000 (***FSMA***) has granted admission to the official list maintained by the FSA and to the regulated main market of London Stock Exchange plc (***London Stock Exchange***) of up to 116,959,064 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York Mellon (the ***Depositary***), of which 37,309,941 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". **The Ordinary Shares are not, and are not expected to be, listed on any stock exchange**.

The Rule 144A GDRs will be evidenced by the master Rule 144A GDR (the ***Master Rule 144A GDR***), which is registered in the name of Cede & Co., as nominee for The Depository Trust Company (***DTC***). The Regulation S GDRs will be evidenced by the 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 is registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary 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 New GDRs will be held by BNY (Nominees) Limited, as custodian (the ***Custodian***), for the Depositary. Except as described herein, beneficial interests in the Master GDRs are held, and transfers thereof are elected only through, DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Transfers within DTC, Euroclear and Clearstream, Luxembourg are in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the New GDRs will be made against payment therefor in US Dollars in same day funds on or about 14 December 2009 (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.

Joint Global Coordinators

Deutsche Bank **Morgan Stanley**

Joint Bookrunners

Deutsche Bank **Morgan Stanley** **VTB Capital**

Co-Lead Manager

UniCredit

The date of this Offering Memorandum is 9 December 2009.

IMPORTANT INFORMATION

The Company and the Selling Shareholder (in the case of the Selling Shareholder, only with respect to the information relating to it and the New GDRs offered by it) accept responsibility for the information contained in this Offering Memorandum. 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 Shareholder (in the case of the Selling Shareholder, only with respect to the information relating to it and the New GDRs offered by it), the information contained in this Offering Memorandum 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 UniCredit CAIB Securities UK Ltd. (the ***Co-Lead Manager***, and together with the Joint Bookrunners, the ***Managers***), any of their respective affiliates or advisors as to the accuracy or completeness of any information contained in this Offering Memorandum, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Managers or any of their respective affiliates or advisors as to the past or the future.

In this Offering Memorandum, 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 Shareholder 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 New GDRs. Any decision to buy the New GDRs should be based solely on the information contained in this Offering Memorandum. 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 Offering Memorandum. 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 Shareholder or the Managers, any of their respective affiliates, advisers or any other person. At any time following the date of this Offering Memorandum, the information contained in this Offering Memorandum 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 Shareholder or the Managers or any of its or their respective representatives to prospective investors as to the legality of an investment in the New GDRs. Prospective investors should not construe anything in this Offering Memorandum 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 New GDRs.

This Offering Memorandum does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the New GDRs offered in the Offering. The distribution of this Offering Memorandum and the Offering may, in certain jurisdictions, be restricted by law and this Offering Memorandum 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 Offering Memorandum comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. None of the Company, the Selling Shareholder, or any of the Managers 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 New GDRs or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Group or the New GDRs in any jurisdiction where action for that purpose is required. Accordingly, the New GDRs may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the New 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 New GDRs is set forth under "Plan of Distribution".

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its or their own account(s) may subscribe for or purchase the New 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 Offering Memorandum to the New GDRs being issued, offered, subscribed, placed or otherwise dealt with should be understood as including any issue, offer, subscription, placement or dealing by the Managers and any of their respective affiliates acting in such capacity. No Manager 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 Offering Memorandum.

NEITHER THE US SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE NEW GDRs OR ORDINARY SHARES OR DETERMINED IF THIS OFFERING MEMORANDUM 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 New GDRs up to a maximum of 10 per cent. of the total number of New GDRs comprised in the Offering or effect other stabilisation transactions with a view to supporting the market price of the New 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 New 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 Offering Memorandum has been prepared on the basis that all offers of GDRs will be made pursuant to an exemption under Directive 2003/71/EC (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 Offering Memorandum should only do so in circumstances under which no obligation arises for the Group or any of the Managers to produce a prospectus for such offer. Neither the Group nor the Managers have authorised, or will authorise, the making of any offer of the GDRs through any financial intermediary, other than offers made by the Managers which constitute the final placement of the GDRs contemplated in this Offering Memorandum.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (a ***Relevant Member State***) who receives any communication in respect of, or who acquires any New GDRs under, the offers contemplated in this Offering Memorandum will be deemed to have represented, warranted and agreed to and with each Manager 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 New GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

   (i) the New 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 New GDRs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those New 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 New 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 New GDRs to be offered so as to enable an investor to decide to purchase or subscribe for the New 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 New 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 New GDRs are not being offered, sold, circulated or delivered in the Russian Federation or to any Russian resident who is not a qualified investor in accordance with Russian law and except as may be otherwise permitted by Russian law. This document does not constitute an offer or advertisement for the New GDRs in the Russian Federation, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the New GDRs to any persons in the Russian Federation.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The New 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 or other jurisdiction of the United States, and the New 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 securities laws of any state or other jurisdiction. The New 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 New GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. There will be no public offer in the United States. For certain restrictions on sales and transfers of the New GDRs, see "Selling and Transfer Restrictions".

Recipients of this Offering Memorandum 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 New GDRs in the Offering and may not disclose any of the contents of this Offering Memorandum for any other purpose. This Offering Memorandum 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 New GDRs. Such recipients of this Offering Memorandum agree to the foregoing by accepting delivery of this Offering Memorandum. This agreement shall be relied upon by the Group, the Selling Shareholder, the Managers 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 New 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 US Securities Exchange Act of 1934 (as amended) (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 judgements 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, most of the Group's assets are located in Russia. Judgements 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 judgement was rendered providing for the recognition of judgements in civil cases and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgements 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 judgement 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 judgement on these grounds. Furthermore, Russian courts have limited experience in the enforcement of foreign court judgements.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum 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, strategy, 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 or elsewhere;
- 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;
- trends and expectations as to growth in the markets in which the Group operates;
- the Group's expectations about growth in demand for the Group's services;
- the Group's future investments and acquisitions;
- 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 "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Russian Rail Transportation Market", and "Business". Any forward-looking statements speak only as at the date of this Offering Memorandum. After the date of this Offering Memorandum, neither the Group nor the Managers assume, and each of the Group and each of the Managers 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 Offering Memorandum that could cause actual results to differ.

These forward-looking statements reflect the Group's judgment at the date of this document and are not intended to give any assurances as to future results. The Group undertakes no obligation to update these forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. The Group will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information. None of the Group, its management or the Managers 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 consolidated financial statements and the Group's consolidated condensed financial information included or incorporated by reference in this Offering Memorandum (the ***Consolidated Financial Statements***) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (***EU IFRS***). In addition, the Group's consolidated condensed capsule financial information included in this Offering Memorandum is stated on a basis substantially consistent with the Consolidated Financial Statements. The financial statements and condensed financial information of OOO BaltTransServis, a limited liability company organised in the Russian Federation (***BTS***) included in this Offering Memorandum (the ***BTS Financial Statements***) have been prepared in accordance with International Financial Reporting Standards (***IFRS***).

IFRS represents International Financial Reporting Standards issued by the International Accounting Standards Board and effective for the periods presented. Standards are adopted by the European Commission through an endorsement procedure, with in some cases, revised effective dates. EU IFRS represents IFRS as endorsed by the European Commission. The Group's management do not consider there are any material differences between IFRS and EU IFRS in relation to the financial information of the Group and/or BTS as presented in this Offering Memorandum. The differences in the effective standards between IFRS and EU IFRS are disclosed in Note 2 to the Consolidated Financial Statements for the year ended 31 December 2008 and Note 3 to the Interim Condensed financial information for the six months ended 30 June 2009.

The Consolidated Financial Statements of the Group, which comprises the Company and all its subsidiaries, include the 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. Under this method financial statements of the acquirees are included in the Consolidated Financial Statements as though the Group (in such a composition) was in existence for all periods presented.

The Company acquired AS Spacecom (***Spacecom***) which has a wholly-owned subsidiary Skinest Veeremi AS (***Skinest Veeremi***) and AS Intopex Trans (***Intopex***, and together with Spacecom, the ***Estonian Subsidiaries***), companies organised and existing under Estonian law, in December 2008 from entities under common control with the Company. Under the predecessor basis of accounting, the Estonian Subsidiaries have been treated as consolidated subsidiaries for each of the years ended 31 December 2008 and 2007 and each of the six-month periods ended 30 June 2009 and 2008. Consequently the comparative period financial information as at and for the six months ended 30 June 2008 and as at and for the year ended 31 December 2007 included in the Consolidated Financial Statements included in this Offering Memorandum have been adjusted (from the Group's previously published financial statements for such periods) to reflect the transfer of, and consolidation of, the Estonian Subsidiaries. This comparative information is unaudited, but, in the case of the information as at and for the year ended 31 December 2007, is derived from the audited Consolidated Financials Statements as at and for the year ended 31 December 2007 as adjusted to reflect the transfer of the Estonian Subsidiaries on the predecessor basis of accounting.

The Consolidated Financial Statements as at and for the years ended 31 December 2007 and 2006, incorporated by reference in this Offering Memorandum have not been adjusted to reflect the transfer and consolidation of the Estonian Subsidiaries.

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 Company and its Russian subsidiaries is the Rouble. The Estonian Subsidiaries have the Estonian Kroon (***EEK***) as their functional currency. The balance sheets of the Group's companies which have currencies other than the US Dollar as their functional currency are translated into US Dollars, at the exchange rate prevailing at the date of the relevant balance sheet, whereby income and expense items incurred in currencies other than the US Dollar using the official exchange rates of the central bank of the country of registration of each entity, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". All resulting foreign currency exchange rate differences are recognised directly in the Group's shareholders' equity as "Translation reserve".

The BTS Financial Statements are presented in Roubles, which management believes to be the most useful for users of the financial statements. The functional currency of BTS is the Rouble. Where BTS financial information is presented in US Dollars in this Offering Memorandum, balance sheet items are translated into US Dollars at the exchange rate prevailing at the date of the relevant balance sheet, whereby income received and expenses incurred in currencies other than the US Dollar are translated into US Dollars at average exchange rates for the respective periods, which approximate the exchange rates existing at the dates of the transactions. For the relevant periods the rates used are as follows:

As at 30 June 2009	31.2904
As at 31 December 2008	29.3804
As at 31 December 2007	24.5462
Average rate for the six-month period ended 30 June 2009	33.2702
Average rate for the six-month period ended 30 June 2008	23.9184
Average rate for the year ended 31 December 2008	24.8740
Average rate for the year ended 31 December 2007	25.5516

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

Non-GAAP Financial Information

In this Offering Memorandum certain measures not recognised by EU IFRS or IFRS (referred to as 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 and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. In this Offering Memorandum the Group has used the following non-GAAP measures as supplemental measures of the Group's operating performance:

- Adjusted Revenue;
- Net Revenue from Operation of Rolling Stock;
- EBITDA;
- Adjusted EBITDA;
- Empty Run Costs; and
- Return on capital employed or ROCE.

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, for analysis of operating results, liquidity or discretionary cash or as alternatives to revenues, profit, operating profit, cash flow from operating activities or any other measures of performance as reported under EU IFRS or 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 more borrowings are incurred, on operating performance;
- EBITDA, Adjusted EBITDA and ROCE do not reflect the impact of income taxes on operating performance; and
- EBITDA and Adjusted EBITDA do not reflect the impact of depreciation and amortisation on operating performance. The assets 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 future cash requirements for these replacements.

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

For a reconciliation of Net Revenue from Operation of Rolling Stock to revenue and a reconciliation of EBITDA and Adjusted EBITDA to profit for the year, see footnote (2) under "Selected Consolidated Financial and Operating Information".

All non-GAAP financial information is calculated on the basis of EU IFRS (or IFRS in the case of BTS) financial statements and/or management accounts and, for the Group, includes the impact of the acquisition and consolidation of Spacecom and Intopex except for Net Revenue from Operation of Rolling Stock and Empty Run Costs which are presented "net of acquisitions" as Spacecom discontinued its operator services prior to acquisition by the Group and had minimal revenues from these services.

In this Offering Memorandum, references to owned or own fleet include rolling stock owned and held under finance leases; references to leased fleet refer to rolling stock held under operating leases; references to total fleet include owned fleet and leased fleet; and fleet includes all rolling stock, including railcars and locomotives, in each case, unless otherwise stated. Market share data has been calculating using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation (***Rosstat***) as the denominator.

Statistical and Market Data

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

- The Central Bank of the Russian Federation (***CBR***);
- Global Insight, an independent economic consultancy firm;
- Rosstat;
- OAO "Russian Railways" (***Russian Railways***);
- Information Agency Argus Media (Russia) Ltd., an independent consultancy firm specialising in the oil products and oil industry (***Argus***);
- Russian Railways-Partner (industry journal);
- BP Statistical Review of World Energy;
- Industrial Cargoes (industry journal); and
- Bloomberg.

This Offering Memorandum also contains information from other third parties, including BTS. Information relating to BTS and its operations, including the BTS Financial Statements, has been drawn from BTS and from public sources.

Where information in this document has been sourced from third parties, this information has been accurately reproduced and, as far as the Group is aware and is able to ascertain from information published by the aforementioned sources, no facts have been omitted that would render the reproduced information, data and statistics inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information assumptions or methodology that may not be accurate or appropriate. Neither the Group nor the Managers have independently verified the figures, market data or other information on which third parties have based their studies. Where information in this document is based on the Group's own information or estimates, the information has been identified as such.

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 and Rosstat, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Offering Memorandum 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 (***RUB***), which is the functional currency of the Company and its Russian subsidiaries. However, the presentation currency of the Consolidated Financial Statements is the US Dollar (***USD***). 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 rates used in the preparation of the Consolidated Financial Statements and other information presented in this Offering Memorandum.

	RUB per USD 1.00			
	High	**Low**	**Period average(1)**	**Period end**
Year ended 31 December				
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
2008	29.38	23.13	24.98	29.38
Month ended in 2009				
31 January	35.41	29.39	32.49	35.41
28 February	36.43	34.56	35.81	35.72
31 March	36.23	33.27	34.66	34.01
30 April	34.10	33.17	33.58	33.25
31 May	32.97	30.98	31.99	30.98
30 June	31.58	30.51	31.06	31.29
31 July	33.06	30.64	31.51	31.76
31 August	32.69	31.05	31.65	31.57
30 September	31.97	30.00	30.86	30.09
31 October	30.12	28.94	29.48	29.34
30 November	29.82	28.67	28.90	29.82
Period from 1 December to 9 December 2009	30.18	29.06	29.35	30.18

Source: Based on CBR data

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

The CBR Rate per USD 1.00 published by the CBR on 9 December 2009 was RUB 30.18.

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.

CONTENTS

SUMMARY

This summary should be read as an introduction to this Offering Memorandum and any decision to invest in the New GDRs offered in the Offering should be based on consideration of this Offering Memorandum as a whole.

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 owned rolling stock, after Russian Railways and its subsidiaries. The Group provides (i) freight rail transportation, (ii) railcar leasing, and (iii) certain ancillary services in Russia, Kazakhstan and Ukraine.

The Group provides services to more than 450 customers, and its key freight rail transportation customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil products and oil, and other major sectors of the Russian economy, including MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel and Mechel, as well as their affiliates and suppliers.

The core elements of the Group's business model are freight rail transportation which accounted for 83.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009, complemented by its railcar leasing business which accounted for 16.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009.

The Group's extensive rolling stock fleet comprises several types of railcars, including gondola (open top) cars, rail tank cars, other cars and locomotives, with a focus on gondola (open top) cars and rail tank cars.

As at 30 September 2009, 80 per cent. of Globaltrans' total fleet or 20,781 units of rolling stock (mostly gondola cars) were engaged in the freight rail transportation business.

The Group's freight rail turnover amounted to 61.7 billion tonnes-km in 2008 with 33.3 million tonnes of freight transported and 47.6 billion tonnes-km in the nine months ended 30 September 2009 with 24.4 million tonnes of freight transported. The key market sectors for Globaltrans are transportation of metallurgical cargoes (ferrous metals, scrap metals and iron ore), oil products and oil, and coal. Based on Rosstat data and the Group's management accounts, the market share of Globaltrans amounted to 6.5 per cent. of the total volume of metallurgical cargoes (ferrous metal, scrap metals, and iron ore), 4.1 per cent. of the total volume of oil products and oil, and 2.2 per cent. of the total volume of coal (thermal and coking) transported in Russia in the nine months ended 30 September 2009.

The second major service provided by Globaltrans is leasing of railcars to third parties. In 2008, the Group significantly expanded the size of its leasing business through the acquisition of stakes in two leasing companies, Spacecom and Intopex. As at 30 September 2009, 20 per cent. of Globaltrans' total fleet or 5,279 units of rolling stock (mostly rail tank cars) were leased out to third parties.

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 enabled Globaltrans to demonstrate a relatively resilient performance during the economic downturn and 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:

- Largest Russian private freight rail operator
- Balanced fleet of rolling stock with focus on gondola (open top) cars and rail tank cars
- Advanced route optimisation systems and focus on higher revenue generating cargoes
- Strong customer base and customer-driven relationships
- Experienced management team

STRATEGY

The Group's strategic objective is to strengthen its position as a leading freight rail operator in Russia by capturing identified opportunities and responding to strategic imperatives, leveraging its scalable business model to further improve operational efficiency, the balance of business, and financial performance. The Group intends to achieve this objective by pursuing a strategy involving the following:

- Return oriented fleet expansion and growth in transportation volumes
- Maintaining a balanced railcar fleet
- Continuing to improve operating efficiency

Recent Developments

Since 30 June 2009, 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.

Supported by improvement in the economic environment in Russia and capitalising on its competitive strengths, the Group increased its freight rail turnover by 9.8 per cent. in the third quarter of 2009 compared to the third quarter of 2008. Ferrous metals, iron ore, and oil products and oil were the key contributors that drove the increase in the Group's freight and turnover, increasing 27.5 per cent., 148.3 per cent. and 4.0 per cent., respectively, as compared to the third quarter of 2008.

In the third quarter of 2009 the Group's Empty Run ratio for gondola (open top) cars improved to 40 per cent. which resulted in an Empty Run ratio for gondola (open top) cars in the nine months ended 30 September 2009 of 49 per cent, compared to 54 per cent. in the six months ended 30 June 2009, while in the nine months ended 30 September 2008 it was 24 per cent. This improvement was driven by an increase in the freight rail turnover from transportation of iron ore, scrap metal and other cargoes during the period.

In response to the improved economic environment and attractive pricing for railcars and in line with its growth strategy, in the third quarter the Group entered into agreements to purchase 2,000 new gondola (open top) cars and an agreement to acquire a 50 per cent. share of OOO BaltTransServis (***BTS***), one of the leading private Russian railway transportation services operators. Management believes that these transactions are a significant step toward achieving its goal of maintaining a balanced railcar fleet by combining gondola (open top) cars exposed to more cyclical growth with rail tank cars exposed to the relatively stable oil products and oil transportation market.

Contribution of BTS

The Company has entered into a contribution and subscription agreement dated as of 30 November 2009 (the ***Contribution and Subscription Agreement***), with TIHL, one of its principal shareholders. The Contribution and Subscription Agreement provides for the transfer to the Company by TIHL of an effective 50 per cent. economic interest and a majority controlling interest in BTS in exchange for Ordinary Shares with a value at the Offer Price of USD 250 million (the ***Contribution***).

The Contribution will be made by way of a transfer to the Company by TIHL of a 5/9 share of a Cypriot holding company currently wholly owned by TIHL. This holding company owns a 90 per cent. share of BTS. The holding company was formed for the purposes of the Contribution and does not have any significant liabilities or assets other than its share of BTS. As a result of the Contribution, the Company will have a 50 per cent. economic interest in BTS but will control it by virtue of its 5/9 share of the holding company. TIHL will retain the balance of its share of the holding company, leaving it with an effective 40 per cent. interest in BTS other than its interest held through the Group. The remaining 10 per cent. share of BTS is owned by an unrelated third party, the controlling shareholder of which holds joint venture interests in which TIHL's controlling shareholders also have an interest.

BTS is a leading private Russian railway transportation services operator, specialising in shipping oil products and oil for Russian oil majors and other oil companies active in the Russian downstream and upstream sector. As of 30 June 2009, it operated 6,581 owned and 2,461 leased rail tank cars and 34 owned and 15 leased locomotives.

For further information regarding the structure and details of the Contribution, see "Contribution of BTS". For further details regarding BTS and its financial results see "Business and Financial Information of BTS". For the pro forma financial information regarding the Contribution, see "Pro Forma Financial Information".

RISK FACTORS

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

Risks Relating to the Group's Business and Industry

- The Group is dependent on demand in Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth.
- The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine.
- The Group's customer base is heavily dependent on a few large industrial groups and their suppliers.
- The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs.
- The Group may be subject to increasing competition from other transportation and logistics companies.
- Expansion of the Group's business may place a strain on its resources.
- The Group's relationship with Russian Railways and government authorities may deteriorate.
- The Group's business, financial condition and results of operations are dependent on tariffs set by the Federal Tariff Service.
- The Group is subject to risks relating to the potential postponement or cancellation of certain steps towards the reform of the Russian rail transportation market.
- Insufficient supply of, or increases in the price of, rolling stock may limit the Group's operations.
- The Group's competitive position and prospects depend on the expertise and experience of its key managers.
- The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel.
- Failure to meet customers' expectations could damage the Group's customer relationships and business reputation.
- Expansion through acquisition entails certain risks, and the Group may experience problems in integrating and managing such new acquisitions.
- Adverse determination of pending and potential legal actions involving the Company's subsidiary Spacecom could have a material adverse effect on the Group's business, revenues, cash flows and the price of the GDRs.
- The Group may be adversely affected by wage increases in Russia.
- 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 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.

Risks Relating to BTS

- Risk of dependence on a limited number of key clients and the oil products and oil industry.
- Risks associated with depot ownership.
- Risks associated with locomotives.
- Risks associated with financial reporting procedures and internal controls.

- Contractual restrictions on disposals and pledges of rolling stock may limit BTS's ability to dispose of its rolling stock.
- BTS faces significant exposure, compared to the Group as a whole, to risks related to VAT recovery issues.
- Risks relating to potential BTS shareholders agreement.

Risks Relating to the Group's Financial Condition

- The Group's indebtedness, particularly under current market conditions, could adversely affect the Group's operational and financial condition.
- The Group's growth strategy requires significant funding.
- The Group is subject to foreign exchange risk.
- The Group may be subject to interest rate risk.
- The Group may be subject to credit 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.

Risks relating to the Group's presence in the Russian Federation and other emerging markets, including political, economic, social and legal risks.

Risks relating to the GDRs, to the trading market and to taxation.

Summary of the Offering

The Offering consists of an offering of 11,764,705 New GDRs by the Company and 6,914,438 New GDRs by the Selling Shareholder, with each New GDR representing an interest in one Ordinary Share. Entities controlled by the beneficial owners of EIL, which prior to the Offering was the beneficial owner of 19.5 per cent. of the Ordinary Shares, are acquiring 430,000 New GDRs in the Offering. The New GDRs are being offered outside the United States 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. Pursuant to a shareholders' resolution adopted on 23 November 2009, shareholders will not have pre-emptive rights to subscribe for Ordinary Shares or New GDRs in the Offering. The Offering by the Company is not conditional upon the Offering by the Selling Shareholder.

Dividend Policy

It is the Company's policy not to pay dividends on the Ordinary Shares for the foreseeable future. The Company 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 100 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 7.5 million. The Group intends to use the net proceeds from the Offering for the acquisition of new rolling stock and for general corporate purposes. The Group will not receive any proceeds from the New GDRs being sold by the Selling Shareholder. See "Use of Proceeds".

Summary Financial Information and Other Information

The summary financial information set forth below has been extracted from the Consolidated Financial Statements included in this Offering Memorandum, as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and 2007. The other information set forth below shows certain (non-GAAP) financial information and operating information as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and

2007. For consolidated condensed capsule financial information and certain operating information for the Group as at and for the nine-month periods ended 30 September 2009 and 2008, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments". For the financial results, additional (non-GAAP) financial information and certain operating information as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and 2007 for BTS, see "Business and Financial Information of BTS". For information concerning the pro forma effects of the Contribution and the Offering see "Pro Forma Financial Information". For additional operating information, see "Appendix I: Operating Information and Relevant Definitions".

Summary Consolidated Income Statement Data

	Six months ended 30 June		Years ended 31 December	
	2009	2008[(1)]	2008	2007[(1)]
	(unaudited)		(audited)	(unaudited)
	(USD in thousands)			
Revenue	215,573	341,622	660,870	605,032
Cost of sales	(143,074)	(207,469)	(401,397)	(419,897)
Gross profit	**72,499**	**134,153**	**259,473**	**185,135**
Selling and marketing costs	(695)	(1,178)	(2,179)	(1,374)
Administrative expenses	(18,202)	(26,480)	(52,735)	(45,003)
Other gains—net	474	2,256	3,209	6,277
Operating profit	**54,076**	**108,751**	**207,768**	**145,035**
Finance income	695	1,607	3,394	6,148
Finance costs	(45,197)	(8,763)	(99,777)	(29,950)
Finance costs—net	**(44,502)**	**(7,156)**	**(96,383)**	**(23,802)**
Share of profit/(loss) of associates	331	546	556	(658)
Profit before income tax	**9,905**	**102,141**	**111,941**	**120,575**
Income tax income/(expense)	1,048	(24,160)	(14,565)	(27,834)
Profit for the period	**10,953**	**77,981**	**97,376**	**92,741**
Attributable to:				
Equity holders of the Company	6,370	72,292	90,934	86,364
Minority interest	4,583	5,689	6,442	6,377
	10,953	**77,981**	**97,376**	**92,741**

Summary Consolidated Balance Sheet Data

	As at 30 June 2009	As at 31 December 2008	As at 31 December 2007[1]
	(unaudited)	(audited)	(unaudited)
		(USD in thousands)	
Assets			
Non-current assets	706,634	770,864	790,391
Non-current assets held for sale	10,871	—	—
Current assets	170,772	225,196	167,349
Total assets	**888,277**	**996,060**	**957,740**
Equity and liabilities			
Capital and reserves	380,295	395,117	252,358
Minority interest	31,208	26,325	26,470
Total equity	**411,503**	**421,442**	**278,828**
Non-current liabilities	289,735	361,518	395,413
Current liabilities	187,039	213,100	283,499
Total liabilities	**476,774**	**574,618**	**678,912**
Total equity and liabilities	**888,277**	**996,060**	**957,740**

Additional (Non-GAAP) Financial Information

	Six months ended 30 June		Years ended 31 December	
	2009	2008[1]	2008	2007[1]
		(USD in thousands)		
Adjusted Revenue[2][3]	180,222	251,370	497,523	404,974
Net Revenue from Operation of Rolling Stock[2][4]	149,207	219,326	433,933	352,792
EBITDA[2][5]	52,317	151,344	205,811	209,715
Adjusted EBITDA[2][6]	74,570	129,668	250,266	177,403
Empty Run Costs[2][7]	45,604	39,267	86,744	82,476
ROCE[2][8]	15%	n/a	24%	n/a

Operating Information

	Six months ended 30 June[9]		Years ended 31 December[10]	
	2009	2008	2008	2007
Freight rail turnover (billion tonnes-km)[11]	31.2	32.6	61.7	61.0
Transportation volume (million tonnes)	16.0	16.8	33.3	35.4
Average price per trip (USD)[12]	590.2	812.2	816.0	616.8
Empty Run ratio for gondola (open top) cars[13]	54%	19%	32%	21%
Average number of loaded trips per railcar[14]	12.5	13.5	26.5	28.2
Average distance of loaded trips (km)	1,969.4	1,930.7	1,855.4	1,751.5
Average rolling stock operated[15]	20,194	20,047	20,057	20,303
Total rolling stock owned and leased under finance and operating lease (at period end)	26,347	25,885	26,967	25,494

(1) The Consolidated Financial Statements for the six-month periods ended 30 June 2009 and 2008, for the years ended 31 December 2008 and 2007 includes the Estonian Subsidiaries under the predecessor basis of accounting. The 2007 information is unaudited but has been derived from the audited Consolidated Financial Statements for 2007 and adjusted to take into account the transfer of the Estonian Subsidiaries to the Group. See "Presentation of Financial and Other Information".

(2) Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA, Empty Run Costs and ROCE are non-GAAP measures presented as supplemental measures of the Group's operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them, as a substitute for analysis of the Group's results as reported under EU IFRS. See "Presentation of Financial and Other Information". For a reconciliation of EBITDA and Adjusted EBITDA to Profit for the period and a reconciliation of Adjusted Revenue and Net Revenue from Operation of Rolling Stock to Revenue, see footnote (2) under "Selected Consolidated Financial and Operating Information".

(3) Adjusted Revenue is calculated as "total revenue-operator's services" plus "total revenue-operating lease" less "infrastructure and locomotive tariffs: loaded trips".

(4) Net Revenue from Operation of Rolling Stock is defined as "revenue from railway transportation—operator's services" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods).

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

(6) Adjusted EBITDA represents EBITDA less net foreign exchange gains/(losses) on financing activities, share of profit/(loss) of associates and other gains/(losses)—net. Other gains/(losses)—net include gains from the sale of subsidiaries, recognised deferred gains and other gains and losses.

(7) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips and services provided by other transportation organisations" component of cost of sales reported under EU IFRS. Empty Run Costs excludes the impact of the transfer and consolidation of Spacecom and Intopex for all periods.

(8) ROCE is defined as Adjusted EBITDA (last twelve months basis) less depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity (including minority interest) and total borrowings.

(9) Represents periods ended 30 June 2009 and 2008, except for total rolling stock owned or leased under finance and operating lease (at period end), which is as at 30 June 2009 and 2008, respectively.

(10) Represents years ended 31 December 2008 and 2007, except for total rolling stock owned or leased under finance and operating lease (at period end), which is as at 31 December 2008 and 2007, respectively.

(11) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

(12) Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(13) Empty Run ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. 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).

(14) Average number of loaded trips per railcar is calculated as total number of loaded trips in the relevant period divided by average rolling stock operated.

(15) Average Rolling Stock Operated is calculated as the average weighted (by days) number of railcars available for operator services (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 New 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 Offering Memorandum prior to making any investment decision with respect to the New 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 is dependent on the demand in the Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth.

The Group is dependent on the demand for rail transportation services in Russia, which in turn depends on trends in certain key economic sectors. The Russian rail transportation market is an important determinant of the Group's freight rail turnover and, consequently, the development of its sales and profits. Freight rail volumes in Russia are largely comprised of commodities, such as coal, oil products and oil and construction materials, metals and ores. The Russian markets for such commodities contribute significantly to the gross domestic product (***GDP***) in Russia, which prior to mid-2008 had experienced strong growth, increasing from USD 432 billion in 2003 to USD 1,677 billion in 2008. Similarly, according to Rosstat, freight rail turnover, driven by growth in the Russian economy and commodities markets, increased by a compound annual growth rate of 5.5 per cent. during the period from 2000 to 2008. However, in the last quarter of 2008 some sectors of the Russian economy, in particular the metallurgical and construction industries, experienced sharp declines in demand due to the global economic downturn. Decreased demand led to a corresponding negative trend in the volume of freight rail turnover in Russia, which continued in early 2009. Since February 2009, volumes of freight rail turnover have begun to recover, with volumes of freight rail turnover increasing by 34.6 per cent. from a low of 123.4 billion tonnes-km in January 2009 to 166.1 billion tonnes-km in October 2009, according to Rosstat. In addition to the Group's key customers, the Group also works with a wide range of other corporate customers, which have allowed the Group to expand its rail transportation services business into new cargo types, such as construction materials, and improve logistics. These economic sectors are exposed to, and have recently experienced, downturns. Such trends have adversely affected, and may continue to adversely affect, the Group's customers' production levels, affecting in turn their demand for transportation of production and raw materials. See "Russian Rail Transportation Market—Trends in Key Freight Rail Transportation Sectors". Given the Group's dependence on trends in the Russian economy and the freight rail transportation market, if any of the Group's key customers or any of the economic sectors in which the Group's customers operate continue to experience decreased production levels for macroeconomic or any other reasons, this could materially impair the Group's growth prospects and 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 business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine.

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 operating information generated, by Russian Railways.

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, as well as railway network and other physical infrastructure in Kazakhstan and Ukraine, 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, as well as railway network and other physical infrastructure in Kazakhstan and Ukraine, 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.

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 eight key industrial groups among the Group's customers, MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel, and Mechel and their suppliers, accounting for more than 69 per cent. of the Group's Net Revenue from the Operation of Rolling Stock during the year ended 31 December 2008. Moreover, the largest four member companies of these industrial groups (calculated together with the contribution to the Group's Net Revenue from the Operation of Rolling Stock made by their suppliers, where relevant) contributed to approximately 57 per cent. of the Group's Net Revenue from the Operation of Rolling Stock in the same period. One of these key customers, RITEK, is affiliated with Lukoil, and these two key customers (and their suppliers) accounted for approximately 25 per cent. of the Group's Net Revenue from the Operation of Rolling Stock for the year ended 31 December 2008. Most of these key customers utilise the Group's services for transportation of cargoes (such as ferrous metals, scrap metal, oil products and oil) 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, and as a result its customers have the option to take their custom to the Group's competitors. 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.

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

Following the Contribution and the Offering, TIHL will own approximately 50.1 per cent. of the Company's issued share capital, assuming the Over-Allotment Option is exercised in full, and EIL will own approximately 14.7 per cent. of the Company's issued share capital. As such, TIHL and EIL will continue to be able to exercise significant control over the Group, such as in electing members of the Board of Directors, approving significant capital increases, transactions and dividends, if any, and limiting or waiving pre-emption rights of the Company's shareholders. TIHL and EIL are parties to an agreement which, inter alia, provides for the appointment and removal of directors by each of them to the boards of the Company and its Russian subsidiaries (other than BTS), for certain reserved matters in which they are to act in concert and imposes certain limitations on their ability to dispose of their respective interests in the Company and to acquire Ordinary Shares in the market other than pro rata to their holdings. See "Principal Shareholders and the Selling Shareholder". There are no agreements in place between the Company and its significant shareholders to ensure that the latter will not abuse their control of the Company. In addition, some of the controlling beneficial shareholders of TIHL and EIL have investments in businesses which currently compete, or may in the future compete, with the Group. Furthermore, TIHL will retain an indirect 40 per cent. share of BTS outside of its interest in the Group. The controlling beneficial shareholders of TIHL and EIL 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 Shareholders and the Selling Shareholder".

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. Freight One, a wholly-owned subsidiary of Russian Railways created to operate in competition with privately owned freight rail operators, has further increased the levels of competition in the market, as Freight One has an extensive fleet of rolling stock, significantly exceeding that of the Group. As of the end of 2008 Freight One operated 16.7 per cent. of the rolling stock in the Russian market, while the top

10 private operators (including the Group) operated approximately 15.7 per cent. of the overall Russian railcar fleet, with the Group accounting for 2.7 per cent. Currently, fewer than 10 companies are considered by the Group to be significant competitors. See "Business—Competitive Environment".

The Group may face increased competition in the future from competitors with more resources and better access to clients. For example, Russian Railways is currently considering creating another wholly-owned freight subsidiary similar to Freight One to be called Freight Two, which would have a fleet of rolling stock significantly larger than the Group's and would likely benefit from the existing relationships with customers enjoyed by Russian Railways. In addition, the Group believes that there are possibilities that some of its smaller competitors may merge in the future, potentially creating a large private 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.

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. 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 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. Government authorities have significant influence over the functioning of the Russian freight rail market. A deterioration in the Group's direct or indirect relationship with government authorities at either the 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 (including maintenance and repairs) 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 in Russia, Kazakhstan and Ukraine" 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. Additionally, 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 and, potentially, Freight Two, if established, will not receive better treatment in terms of service levels and delivery times than those received by the Group. Also, most of the Group's locomotives are currently leased out to third party operators as of 30 September

2009, and on some routes, the Group operates its own locomotives. Current Russian regulation on the use of locomotives is incomplete and ambiguous in relation to procedures through which private companies may operate locomotives, and access for private locomotives to infrastructure is dependent on the cooperation of Russian Railways. Moreover, Russian Railways, as a monopoly carrier, does not fully support the private operation of locomotives in competition with Russian Railways locomotive services. There is a risk that Russian Railways may delay applications for, or refuse to grant permission necessary for the Group or its locomotive leasing customers to provide services. If the Group's relationship with Russian Railways deteriorates, if such competitive pressures manifest themselves or increase, or if government authorities introduce changes to the legislative regime governing locomotive usage that negatively affect the ability of the Group or its locomotive leasing customers to operate locomotives, any 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.

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 ***FST***), 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 FST (with the exception of the railcar charges of its subsidiaries, including Freight One, which are not subject to regulation by the FST with respect to railcar charges) and serves, for certain cargoes, as a pricing benchmark for private freight rail operators. Should the railcar charge imposed by Russian Railways decrease, as a result of changes in the FST's regulatory policies or 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.

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 is subject to risks relating to the potential postponement or cancellation of certain steps towards the reform of the Russian rail transportation market.

In 2001, Russia's Ministry of Railways embarked on a comprehensive railway structural reform programme consisting of three phases setting out strategic priorities for the rail industry up to 2010 and beyond, with the aim of improving the efficiency and profitability of rail services in Russia and encouraging investment for modernisation. The Group takes the structural reform program into account when considering its business plan and strategy and the postponement or cancellation of the reform programme may significantly disrupt the Group's current or future business. There have already been a number of delays in implementation of the reform programme. The first stage was scheduled for completion in 2002, but was not completed until 2003 with the establishment of Russian Railways. The second stage was to be completed by 2005, but certain second-stage reform objectives have yet to be accomplished, such as ending cross-subsidisation of freight and passenger transportation. Implementation of the third stage, scheduled to begin in 2006 and end in 2010, has not yet begun. Russian Railways remains the largest provider of locomotive traction services in Russia, and the timing of the reform programme's plan to liberalise the regulation of locomotive traction is uncertain. Moreover, the Ministry of Transport and Russian Railways are currently debating the status of the Reform, and Russian Railways has indicated publicly that it does not fully support further reform or the introduction of private locomotive operators. Although certain private rolling stock operators, including the Group's subsidiary, New Forwarding Company, and BTS, have obtained freight rail carrier licenses, they do not yet operate as carriers because the tariff regulation and private operating procedures for locomotive facilities have yet to be amended, and access to the railway infrastructure has not been simplified. Further postponement or cancellation of the programme to reform the Russian freight rail transportation market may have a material adverse effect on the Group's business, results of operations, financial condition, prospects or the trading price of the GDRs.

Insufficient supply of, or increases in the price of, rolling stock may limit the Group's operations.

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. In addition, the adaptability of these manufacturers' production facilities from one type of railcar to another is limited. Furthermore, a significant part of the rolling stock fleet operated by Russian Railways (including its subsidiary, Freight One), the largest freight rail operator in Russia by number of rolling stock operated, is at an advanced age and may require replacement, which could 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 or delays, including by leasing it from third parties. However, there can be no assurance that the Group will continue to be able to source sufficient supplies of new rolling stock for its fleet on commercially acceptable terms, or at all. If the Group is unable to acquire the requisite quantity of new rolling stock on commercially acceptable terms or experiences delays or failures in delivery of rolling stock ordered, its business, results of operations, financial condition, prospects and the trading price of the GDRs may be adversely affected.

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 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.

Failure to meet customers' expectations could damage the Group's customer relationships and business reputation.

The Group's customers rely on the Group for high-quality provision of its freight rail transportation and affiliated services and expect the Group to be commercially responsive to their needs which include timely pick up and delivery of cargo and availability of rolling stock. To meet quality of service expectations from customers, in particular, the Group must ensure that sufficient railcars can be delivered to customers upon request in a timely manner and in accordance with a customer's production cycle and that any railcars provided are of sufficient quality and possess the requisite certifications necessary to avoid delays when dispatching. The Group may be unable to meet such customer expectations due to such factors as failure to implement or perpetuate a customer-oriented culture within the Group, an insufficient supply of rolling stock available to service customers due to mistakes in logistics planning (including delays in real-time information exchanges). In addition, the ability to meet customer expectations is often outside the direct control of the Group. Since the Group relies on Russian Railways for locomotive traction and infrastructure usage, timely delivery of cargo is highly dependent on a third party whose differing incentives may result in its performing in a manner that would be unsatisfactory to the Group's customers. A significant delay in the delivery of customer cargo through its 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. Likewise, damage to the customer's cargo due to derailment or mishandling could also result in customer dissatisfaction with the delivery of the Group's services. Failure to meet customer expectations could lead to a significant loss of customer business by the Group and/or impairment of the Group's business reputation 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. See also "—The Group's customer base is heavily dependent on a few large industrial groups and their suppliers".

Expansion through acquisition entails certain risks, and the Group may experience problems in integrating and managing such new acquisitions.

The Group has in the past, and may in the future, expand its operations through acquisitions. The pursuit of an acquisition strategy entails certain risks, including the failure to identify suitable acquisition targets and/or the failure to conduct appropriate due diligence on such target's operations and/or financial condition, the overvaluation of such target and thus the payment of consideration greater than the acquisition's market value, the incurrence of significantly higher than anticipated financing-related risks and operating expenses, and the discovery of larger than anticipated or previously undisclosed liabilities. Acquiring additional businesses could also place increased pressures on the Group's cash flows, especially if the acquisition is paid for in cash. Additionally, if an acquisition is not completed, this may adversely impact the Group's strategic objectives. If any such risks materialise in conjunction with an acquisition, 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.

In addition, the Group may experience problems in integrating acquisitions into its business and managing them optimally. These risks include failing to effectively assimilate and integrate the operations and personnel of an acquired company into the Group's business, failing to install and integrate all necessary systems and controls, including logistics and distribution facilities and arrangements, conflicts between majority and minority shareholders, hostility and/or lack of cooperation from the acquisition's management and the potential loss of the acquisition's customers. Moreover, the broader disruptions in operations and the strain on management resources, including the diversion of attention from management's normal day-to-day business, that often occur in conjunction with an acquisition may impose significant costs on the Group. 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.

Adverse determination of pending and potential legal actions involving the Company's subsidiary Spacecom could have a material adverse effect on the Group's business, revenues, cash flows and the price of the GDRs.

In 2004, following a public tender, Spacecom was awarded the right to operate on the infrastructure of Estonian railways, becoming the first operator to compete in the railway transport of cargo in Estonia with AS Eesti Raudtee, the owner of the railway infrastructure. Spacecom provided carrier services in Estonia until the first half of 2008. Provision of such services by Spacecom has led to complex legal disputes regarding fair access to the infrastructure. These disputes relate to unpaid invoices, the legality of the infrastructure access fee, compensation for damages caused by abuse of market position through unfair pricing and anticompetitive activity. AS Eesti Raudtee has filed a claim against Spacecom for reimbursement of unpaid invoices in the total amount of EEK 119,497 thousand (approximately USD 11,376 thousand at 27 November 2009 exchange rates) and a late payment interest of EEK 122,368 thousand (approximately USD 11,650 thousand at 27 November 2009 exchange rates) for the period from 31 May 2004 to 31 May 2005. The Group has recognized the full amount of the unpaid invoices as liabilities in its Consolidated Financial Statements under current trade payables but has made no provision for liabilities in connection with potential payment of late payment interest arising out of this dispute.

Separately, Spacecom and its CEO Oleg Osinovsky were convicted of violation of Estonian competition law, which is a criminal offence in Estonia, and ordered to pay fines of EUR 31,948 and EUR 8,950, respectively. Spacecom and Mr. Osinovsky have appealed the conviction to the European Court for Human Rights. The confirmation of the criminal convictions by the European Court for Human Rights could lead to negative publicity and thus negatively affect the Group's reputation.

AS Eesti Raudtee has also successfully challenged the methodology used by the Estonian Railway Inspectorate to set infrastructure access fee tariffs for the 2005–2006 calendar years in the Estonian Constitutional Court and is challenging the methodology for the 2006–2007 calendar years on the basis that the methodology failed to take into account its investment requirements. In public statements, officials of AS Eesti Raudtee have indicated that it may claim the value of the difference between the tariffs set on the basis of the flawed methodologies and fees that should have been paid to it had its investment requirements been taken into consideration from the Estonian State and/or the operators of rolling stock during the relevant periods, including Spacecom. Should AS Eesti Raudtee succeed in its damages claim or in its potential claims arising out of the infrastructure tariff setting methodology, the Group may be exposed to substantial financial liability which could negatively affect its business, revenues, cash flows and, as a result, the 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 increased significantly in the years prior to the downturn. Should this trend recur in the future due to economic recovery, a shortage of qualified personnel or other factors, and 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.

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. For example, the Group generally does not carry third-party liability insurance or business interruption 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 rather than the Group. 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 in connection with the provision of locomotive services in the future and if the Group were to become a carrier. Other risks for which the Group does not have separate insurance coverage include major accidents. The Group's failure to carry business interruption insurance also means that if the Group suffers an interruption in its ability to operate, there will be no income to pay its obligations, which may result in the Group selling assets at distressed prices, an inability to obtain credit or insolvency. If such uninsured events were to occur and the Group were liable for them, 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 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 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.

RISKS RELATING TO BTS

BTS is proposed to become a consolidated subsidiary of the Company by way of the Contribution, which is conditional on the successful completion of the Offering. BTS is exposed to many of the same risks as the Group, but by taking a 50 per cent. controlling share of BTS, the Group will also become exposed to additional risks specific to BTS.

Risk of dependence on a limited number of key clients and the oil products and oil industry.

BTS is dependent upon a very limited number of key clients for a significant portion of its business and revenues as compared to the Group as a whole, with BTS's three main customers accounting for approximately 83 per cent., and one customer, TNK-BP, accounting for more than 50 per cent. of its Net Revenue from Operation of Rolling Stock for the six months ended 30 June 2009. In addition, because the rolling stock of BTS consists primarily of rail tank cars, BTS is highly dependent upon trends within the oil products and oil industry for its revenues, and accordingly, it is particularly exposed to fluctuations in the demand for oil products and oil transportation services. If following the Contribution any of these risks materialise the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

Risks associated with depot ownership.

BTS recently acquired, and is currently operating, a railcar repair and maintenance depot in Ivanovo, which services only cars owned by BTS. Following repairs at Ivanovo, the railcars are inspected by a Russian Railways inspector and given permission to operate on Russian railways rail tracks. If following repairs Russian Railways finds a fault in the railcar, it may uncouple the defective cars and impose an uncoupling charge on BTS, as owner of the railcar, or if the railcar is owned by a third party, that party may then be entitled to claim compensation for the uncoupling fee from BTS. If, in the future, a railcar owned by a third party is repaired at Ivanovo and is subsequently found to be defective, BTS may be liable for losses resulting from uncoupling charges, the breakdown of the railcar, earlier-than-scheduled repairs, delays in the delivery of cargo, or the railcar owner's lost profits. Moreover, if an accident or derailment occurs as a result of improper service or repair of a railcar at the depot, BTS could be held liable for damage done to the railcar itself, the railway infrastructure, third parties or the environment. In the case of a derailment on Russian Railways' infrastructure, Russian Railways will act as an intermediary between BTS and any damaged party. BTS may suffer losses arising from damage to its own railcars or be found liable for third party losses caused by such damage and may be obliged to compensate Russian Railways. BTS does not carry insurance policies covering losses related to defects in railcars repaired at the Ivanovo depot.

In addition, as part of the acquisition of the Ivanovo depot, BTS acquired an air tank platform classified as a hazardous facility requiring a license. BTS does not have such a license, and though BTS intends to replace the facility with other equipment, there can be no assurance that BTS will not be held responsible for breach of the licensing requirements.

Furthermore, because the depot was acquired recently, neither BTS nor the Group has sufficient experience in operating such a facility, and BTS cannot predict all the risks related to the ownership and operation of the depot.

If, following the Contribution, any of these risks materialise, the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

Risks associated with locomotives.

BTS has a competitive advantage in providing freight rail transportation services to oil refineries because it operates its own locomotives. It is dependent upon Russian Railways, however, to provide it with locomotive crews. The unavailability of such crews or their failure to perform their jobs properly would have an adverse effect of the ability of BTS to offer locomotive services to its customers. BTS is also dependent upon Russian Railways to issue permits for its operation of locomotives and to approve its use of locomotives for particular routes. If the procedures for obtaining such permits and approvals are changed or such permits and approvals became more difficult to obtain or for any reason became unavailable to BTS or to private operators generally (as a result of a change in the regulatory regime or otherwise), BTS may be unable to offer locomotive services to its customers. If following the Contribution any of these risks materialise the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

Risks associated with financial reporting procedures and internal controls.

Although BTS has produced IFRS accounts for a number of years, it has always been privately owned and has not previously been required to comply with public company reporting practices or to adhere to a public company financial reporting timetable. This may result in substantial delays in consolidating the results of BTS into the Group's Consolidated Financial Statements and may require significant attention from the Group's senior accounting personnel. If, following the Contribution, the Group is unable to prepare accurate financial information for BTS in a timely manner, its business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

Contractual restrictions on disposals and pledges of rolling stock may limit BTS's ability to dispose of its rolling stock.

In accordance with a suretyship agreement between BTS and Sberbank (the ***Suretyship Agreement***), BTS acts as surety in respect of the obligations of OOO Severstaltrans-Finance, a former related party, under a credit agreement between OOO Severstaltrans-Finance and Sberbank. The Suretyship Agreement provides that BTS is obliged not to dispose of or pledge its rolling stock without the prior written consent of Sberbank. This agreement limits BTS's ability to dispose of its rolling stock as it sees fit, as well as its ability to use it as collateral. Although BTS has applied to Sberbank on a number of occasions for such consents and has always successfully obtained them, the granting of consents remains at the discretion of Sberbank and it may refuse BTS's applications in the future. If following the Contribution, BTS receives any such refusal, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs.

BTS faces significant exposure, compared to the Group as a whole, to risks related to VAT recovery issues.

BTS is dependent upon a very limited number of key clients, most of which are Russian oil majors, for a significant portion of its business and revenues as compared to the Group as a whole. The principal service BTS provides such clients is the transportation of cargoes to Russian ports and border crossings for further export destination. Under the Russian Tax Code, BTS is entitled to recover value added tax (***VAT***) paid to vendors, but such recovery may be difficult to claim. BTS is also currently engaged in disputes and litigations related to recovery of VAT by its customers. The status of the current proceedings in which BTS participates is set out in Notes 12 and 14 to the BTS Interim Condensed Financial Information for the six months ended 30 June 2009 included in this Offering Memorandum. If following the Contribution any of these risks materialise the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

Risks relating to potential BTS shareholders agreement.

Ingulana Holdings has been in negotiations with the 10 per cent. minority holder in BTS with regard to entering into a shareholders agreement with respect to the conduct of the business and corporate governance of BTS, including certain reserved matters that would require the approval of both parties. This agreement also would contain restrictions on the rights of the parties to transfer their interests in BTS to any person other than their respective affiliates. This agreement, if concluded, would limit the Group's ability to direct the affairs of BTS with respect to the matters covered and, if the minority shareholder were to exercise its rights under this agreement in a manner detrimental to BTS, this could have an adverse effect on BTS and the Group as a whole, and the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs could be materially adversely affected.

RISKS RELATING TO THE GROUP'S FINANCIAL CONDITION

The Group's indebtedness, particularly under current market conditions, 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 30 June 2009, the Group had total short and long-term borrowings in the total amount of USD 394,929 thousand and net debt of USD 330,713 thousand. Among other things, the Group's indebtedness could potentially: (a) limit its ability to obtain additional financing and refinance existing indebtedness, especially in light of current market conditions; (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. For example, significant Rouble devaluation between September 2008 and February 2009 resulted in technical breaches of certain restrictive covenants in the Group's loan agreements and the need to obtain waivers of such breaches from the relevant lenders. While the Group was successful in obtaining such waivers, there can be no assurance that the Group would not need to seek waivers of defaults under its financing agreements in the future or that its creditors will grant such waivers. 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 30 June 2009, a substantial portion of the Group's rolling stock was financed by finance leases or pledged to support certain of the Group's indebtedness. In addition, certain of the Group's facilities require TIHL to maintain a specified shareholding in the Company and for TIHL to comply with certain obligations in relation to its borrowings. Compliance with these requirements is outside the Company's control. If the Group cannot service its debt or refinance its existing debt as it comes due or remain in compliance with its covenants, such failure 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 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, the proceeds of the Offering and the issuance of equity. If the Group is not able to obtain adequate funding for its growth, or if such funding is only available on commercially unfavourable terms, this could limit future growth and have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group is 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 these foreign exchange risks. In addition, although the functional currency of the Company and its Russian subsidiaries is the Rouble, it reports in US Dollars. Accordingly, fluctuations in the Rouble/US Dollar exchange rate can have a significant effect on the Group's business and reported results from period to period. The Group is therefore exposed to the effects of currency fluctuations between the US Dollar and the Rouble. Such fluctuations have been significant in recent years. The Group's exposure to such fluctuations 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 be subject to interest rate risk.

Because the Group often enters into lease and long-term borrowing contracts in order to finance the purchase of rolling stock, the Group's income and operating cash flows are exposed to changes in market interest rates arising from floating rate lease liabilities and borrowings. In addition, the Group is exposed to fair value interest risk through market value fluctuations of lease liabilities and lease receivables with fixed interest rates. To the extent such risks materialise, they 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 be subject to credit risk.

The Group's business is heavily dependent upon eight key customers and their suppliers, which, as of 31 December 2008, accounted for approximately 69 per cent. of the Group's Net Revenue from Operation of Rolling Stock. To the extent such customers experience financial difficulties which lead to failures or delays in the repayment of obligations, 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 Russian subsidiaries, if made, are subject to withholding tax in Russia. The retained earnings of the Estonian Subsidiaries are not taxed. Under the Estonian tax system, only hidden profits, including hidden profit distributions such as fringe benefits, non-business expenses, transfer pricing adjustments, gifts and donations, are taxable at a flat rate of 21 per cent. on the gross amount of profit distribution. Moreover, if the Contribution takes place, defence tax in Cyprus at a rate of 15 per cent. would be payable by Ingulana Holdings Limited (the company through which the Company will hold its share of BTS) on deemed dividends to the extent that its direct shareholders (including the Company) are resident in Cyprus for tax purposes. 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 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 applicable. 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, or that the Company will receive sufficient funds from its subsidiaries to meet its financial obligations. In addition, 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. The Company could also be liable for the debts of its effective subsidiaries in certain cases (see "—Risks Relating to Russia and Other Emerging Markets—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, the lack of experience in preparing regular management accounts on a basis consistent with EU IFRS and the Group's dependence upon Russian Railways for the provision of certain information 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 listed company.

RISKS RELATING TO RUSSIA AND OTHER EMERGING MARKETS

The Group's business, and substantially all of its assets, are located in Russia and certain other emerging markets. There are certain risks associated with an investment in Russia and other emerging markets.

General

Emerging markets, such as the Russian Federation, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks, and the global financial and economic crisis could have a particularly significant adverse effect on emerging markets such as Russia, Kazakhstan and Ukraine.

Investors in emerging markets, such as the Russian Federation, Kazakhstan and Ukraine, 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. Moreover, during times of financial crisis companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn. The risk factors below focus on risks in Russia but many of them are also applicable to Kazakhstan and Ukraine and other emerging markets.

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 undergone a transformation 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 former President Vladimir Putin is generally credited with increasing governmental stability and accelerating the reform process, which made the political and economic situation in Russia more conducive to investment. President Dmitry Medvedev assumed power from Putin in May 2008. Although a significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment by President Medvedev of Putin as Russia's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future, and has recently stressed the need for further diversification of the Russian economy away from its longstanding focus on the extraction of raw materials. Moreover, while the Russian political system and the relationship between President Medvedev, the Russian government and the Russian parliament currently appear to be stable, future political instability could result from declines in the overall economic situation, including any deterioration in standards of living. 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. Some analysts contend that such prosecutions and claims for unpaid taxes demonstrate a willingness to reverse key political and economic reforms of the 1990s and have resulted in significant fluctuations in the market price of the securities of Russian companies as well as negatively impacted foreign direct and portfolio investment in Russia. 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 business and investment climate and have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities. 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, military conflicts and 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, military conflicts and/or terrorist attacks and the resulting heightened security measures could cause disruptions to domestic commerce of Russia and other involved countries as well as lead to stock market volatility. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. Further such conflicts or tensions 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 and other markets in which the Group operates 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;
- widespread use of barter and non-liquid bills in settlements for commercial transactions;
- 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.

The Russian economy has been subject to abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits.

In December 2008, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the current financial and economic crisis that began in the second half of 2008. Moody's Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from

BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. Should any of the international credit rating agencies issue additional negative credit assessments, a further reduction in foreign investment and an increased cost of borrowing for the Russian government may occur. In late 2008, the Russian government announced plans to institute more than USD 200 billion in emergency financial assistance measures in order to ease taxes, refinance foreign debt and encourage lending. There can be no assurance that these or other measures adopted by the Russian government to ameliorate the effect of the current financial and economic crisis will result in a short-term recovery of the Russian economy. Indeed, the impact of the global financial and economic crisis on the Russian economy has led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant depreciation of the Rouble against the US Dollar and Euro, the rise of unemployment and an increase in the inflation rate.

Any deterioration in the general economic conditions in Russia could adversely influence the level of consumer demand for various products, including those carried by the Group, and therefore 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.

Continued instability in global credit markets may adversely affect the Group's business, financial condition, results of operations and prospects.

The credit markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the summer of 2007. Global credit markets tightened initially as a result of concerns over the United States sub-prime mortgages crisis and the valuation and liquidity of mortgage-backed securities and other financial instruments, such as asset-backed commercial paper. Significant mark-to-market write-downs of asset values followed, initially in respect of mortgage-backed securities, but such write-downs then spread to other financial instruments, such as syndicated loans, and other classes of assets. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger financial institutions and, in some cases, to fail, such as in the case of the US investment bank Lehman Brothers. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions.

In response to the financial crisis affecting the global banking sector and financial markets and the threats to the ability of investment banks and other financial institutions to continue as going concerns, governments in the United States, in many of the largest countries in Europe and elsewhere have announced, and in many cases begun to implement, significant rescue packages, which include, among other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. Despite these proposals and actions, the volatility and market disruption in the global banking sector has continued to a degree unprecedented in recent history. It is difficult to estimate when all of the above proposals will be fully implemented and, if and when implemented, what impact they will have on the financial markets, or whether further measures will be required in addition to those already implemented or announced. There can be no assurance that such measures will succeed in returning stability to the global banking sector and financial markets in the short term or beyond. Continued instability in global credit markets 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 produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to fluctuations in the world markets in the prices of commodities. Russian freight rail volumes are vulnerable to fluctuations in demand for such resources, particularly those related to the metallurgical industry. A sustained decline in the price of, or demand for, certain Russian commodities, or the imposition of restrictions on Russian products by principal export markets, could slow or disrupt the Russian economy and cause freight rail volumes to decline. In addition, instability in other markets (whether developed or emerging), including the instability resulting from the current global economic and financial crisis, 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.

Inflation could increase the Group's cost base.

The Russian economy has recently been characterised by high rates of inflation. The inflation rate for the first nine months of 2009 was 10.7 per cent., and the annual inflation rate was 13.3 per cent. in 2008, 11.9 per cent. in 2007 and 9.0 per cent. in 2006, 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.

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. Furthermore, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant in southern Siberia, the largest such plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of Roubles in damage. As a result of the accident, the plant halted power production, leading to temporary power shortages for both residential and industrial consumers.

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. 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 in Russia, Kasakhstan and Ukraine".

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.

Many Russian banks also do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. Banking supervision is also often inadequate, and, as a result, many Russian banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves, diversification of exposure or other requirements. The imposition of more stringent regulations or interpretations could lead to determinations of inadequate capital and the insolvency of some banks.

Prior to the current global financial crisis, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market was leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which further deteriorated 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. The current global financial crisis has led to the collapse or bailout of some Russian banks and to significant liquidity crises for others. Profitability levels of most Russian banks have been adversely affected. As a result, the Russian government has injected substantial funds into the banking system amidst reports of difficulties among Russian banks and other financial institutions. In addition, there are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. The continuation or worsening of the banking crisis or 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, including that caused by worsening economic conditions and turmoil in the Russian financial markets, 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. Although the protests have since ceased, 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. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the current economic downturn, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already lead to a certain amount of labour and social unrest that may continue or escalate in the future. 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 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 risen, 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.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.

The official data published by the Russian federal, regional and local government agencies are substantially less complete or reliable than those of some of the more economically developed countries of North America and Europe. Official statistics may also be produced on different bases than those used in more economically developed countries. Additionally, the Group relies on and refers to information from various third-party sources and its own internal estimates. For example, a significant portion of the information contained in this Offering Memorandum concerning the Group's competitors and the freight rail industry has been derived from publicly available information, including Rosstat press releases. The Group believes that these sources and estimates are reliable, but has not independently verified them. However, to the extent that such sources or estimates are based on official data released by Russian federal, regional and local government agencies, they will be subject to the same uncertainty. Any discussion of matters relating to Russia in this Offering Memorandum is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

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:

- the existence of inconsistencies 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;
- the relative unavailability of Russian legislation and court decisions in an organised manner that facilitates the understanding of such legislation and court decisions;

- the relative inexperience of judges and courts in interpreting legislation in accordance with new principles established under reformed statutes;
- the existence of substantial gaps 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 that are not well developed and subject to abuse.

Additionally, several fundamental Russian laws, including those relating to disclosure and reporting requirements as well as to money laundering, 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.

Most of the Company's operating subsidiaries are organised and existing in Russia and hold most of 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. Corporate governance standards in Russia and certain other jurisdictions where the Group has subsidiaries are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights. And, despite recent amendments to the Federal Law No. 208-FZ "On Joint Stock Companies", minority shareholders possess only a limited ability under Russian law to protect their rights against majority shareholders.

In addition, 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, judgements 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 judgement was rendered providing for the recognition of judgements in civil cases or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgements 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 judgements 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 binding 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, Sevtekhnotrans, had negative net assets and therefore it breached the Russian law requirement described above. Sevtekhnotrans 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 Sevtekhnotrans 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 Sevtekhnotrans 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 lack of state budgetary resources;
- 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 judgements; and
- reportedly widespread corruption among government officials.

The concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against expropriation or nationalisation. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian government decides to expropriate or nationalise some or all of the Group's assets. Expropriation or nationalisation of all or a portion of the Group's business, especially without fair compensation, 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 and, as of 1 January 2007, the abolishment of certain currency restrictions. 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.

The Group may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations.

Russian regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with new requirements may be costly and time consuming and may result in delays in the commencement or continuation of the Group's operations. Moreover, any failure by the Group to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon the Group or its subsidiaries and criminal and administrative penalties applicable to officers of the Group's subsidiaries. There can be no assurance that the Group will be able to comply with existing or new requirements and, as a result, the Group may be required to cease certain of its business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions 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 have no direct voting rights with respect to the Ordinary Shares represented by the GDRs (including the New GDRs). GDR holders are able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement entered into on 7 May 2008 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 receive notice directly from the Company and are able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, do not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company provides notice to the Depositary. The Depositary then, as soon as practicable, at the Company's expense, distributes 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".

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

Sales, or the possibility of sales, by the Company, the Selling Shareholder or EIL (or by a pledgee of Ordinary Shares or GDRs pledged by the Selling Shareholder or EIL (see "Principal Shareholders and the Selling Shareholder")) of a substantial number of GDRs or Ordinary Shares in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs as well as the Company's ability to obtain further capital through an offering of equity securities. Each of the Company, the Selling Shareholder (the owner of 50.1 per cent. of the Company) and EIL (the owner of 19.5 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 Global Coordinators, sell, pledge or encumber the Ordinary Shares or, in the case of the Company, issue new Ordinary Shares (the ***Lock-up Agreement***). The sale of a substantial number of additional GDRs or Ordinary Shares following the Offering, in particular by the Selling Shareholder or EIL (or a pledgee), 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 New GDRs they purchased in the Offering at or above the Offer Price or at all. Moreover, the Company may in the future issue new Ordinary Shares or GDRs that have rights, preferences or privileges senior to those of the Ordinary Shares which could negatively affect the price of the GDRs. As a result, investors who purchase New GDRs in the Offering, or GDRs in the secondary market could lose all or part of their investment in such 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 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 Offering Memorandum, 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 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 additional 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", though, under certain circumstances, such pre-emptive rights can be disapplied by the majorities described in "Description of Share Capital and Applicable Cypriot Law". At the meeting of the shareholders held on 23 November 2009, the shareholders of the Company voted to disapply pre-emptive rights in conjunction with the placement of up to 116,959,064 Ordinary Shares, including the Ordinary Shares represented by the New GDRs and Ordinary Shares to be allocated to the Selling Shareholder in connection with the Contribution. As a result, following the Offering and until 23 November 2010, holders of GDRs will not be able to exercise pre-emptive rights on any offering of up to 116,959,064 additional Ordinary Shares (or GDRs representing such Ordinary Shares) by the Company unless the shareholders decide otherwise in a general meeting. 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 may not 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 price of the GDRs may be highly volatile.

After the Offering, a more active trading market for the GDRs may not develop. Trading of the GDRs on the London Stock Exchange has historically been subject to high volatility in terms of price and volume. See "GDR Trading History". The liquidity of any market for the GDRs depends on the number of holders of the GDRs, the market for similar securities and other factors, including general economic conditions and the Group's financial condition, performance and prospectus, as well as the recommendations of securities analysts. As a result, the Group cannot be certain that a more active trading market for the GDRs will develop following the Offering or that it will be maintained. If a more active trading market for the GDRs does not develop, investors may not be able to sell the New GDRs they purchased in the Offering at or above the Offer Price or at all. As a result, investors who purchase New GDRs in the Offering could lose all or part of their investment in the New GDRs. In addition, the appearance of New GDRs on the market may affect the price of all GDRs.

The Ordinary Shares underlying the New GDRs are not listed and are illiquid and will remain illiquid following the Offering.

Unlike the shares underlying most of the other global depositary receipts traded on the London Stock Exchange, the Company's Ordinary Shares are neither listed nor traded on any stock exchange, and the Company does not intend to apply for the listing or admission to trading of its Ordinary Shares on any stock exchange. As a result, a withdrawal of ordinary shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement", will result in that holder obtaining securities that are significantly less liquid than the New GDRs and the price of those securities may be discounted as a result of such withdrawal.

RISKS RELATING TO TAXATION

Taxation Risks Relating to Russia

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

Generally, Russian companies pay relatively substantial taxes, which are imposed at the federal, regional and local levels, and include, *inter alia*, corporate profits tax, VAT, property tax and unified social tax (***UST***) (which, of 1 January 2010, will be replaced by mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund). Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period of time relative to tax laws in more developed market economies, and the Russian government's implementation of these laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in the continual change in interpretations of the existing laws and in the imposition of new taxes in an attempt to increase revenue. Although the quality of the Russian tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that the Russian government may impose arbitrary or onerous taxes and penalties in the future.

Russian federal, regional and local tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent enforcement. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, creating uncertainties and inconsistent enforcement procedures. The Russian tax system is further impeded by the fact that it still relies heavily on the at times inconsistent judgments of local tax officials, rather than working to address many of the existing ambiguities of the tax law. Further recent trends within Russia suggest that the tax authorities may be taking a more assertive position in their interpretation of legislation and tax assessments. In particular, in some instances the Russian tax authorities have applied new interpretations of tax laws retroactively. As taxpayers and the Russian tax authorities often interpret tax laws differently, taxpayers usually have to resort to court proceedings to defend their position against the tax authorities. Specifically, during the last few years the tax audits carried out by local tax officials have resulted in several material claims being made against major Russian companies. Furthermore, at the judicial level, there is no established precedent or consistent court practice in respect of these issues. In the absence of the binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

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. There can be therefore no assurance that the Tax Code will not be changed in the future in a manner that will adversely affect the relative stability and predictability of the tax system.

Despite the Russian government taking steps to reduce the overall tax burden on taxpayers in recent years, the tax authorities challenge certain structures, arrangements and transactions of taxpayers 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".

The introduction of new taxes, amendments to current taxation rules or changes in approaches to their interpretation may have a substantial impact on the overall amount of tax liabilities of the Group. There is no assurance that the Group would not be required to make substantially larger tax payments in the future. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning, business and operations, financial condition or prospects and the trading price of the GDRs, potentially exposing it to significant additional taxes, fines and penalties and enforcement measures.

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

Tax liabilities reflected in tax declarations of taxpayers in Russia together with related documentation are subject to review and investigation by a number of authorities, which are authorised by Russian law to impose fines and penalties. Generally, tax declarations remain open and subject to inspection by the tax and/or customs authorities for a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted. The fact that a year has been reviewed by the tax authorities does not prevent any tax declarations applicable to that year from further review during the three-year limitation period and therefore do not exclude subsequent claims that can be made in relation to the audited periods. In particular, Russian tax law allows a higher tax inspectorate than that which carried out the initial tax audit to re-audit the same reporting (tax) period; the tax authorities are also allowed to carry out repeat on-site tax audits in case of the restructuring or liquidation of a taxpayer or submission of an adjusted tax return for the same period resulting in decrease of the amount of taxes payable. 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).

In addition, on 14 July 2005 the Constitutional Court of the Russian Federation issued a decision that allows the extension of the statute of limitations for tax liabilities beyond the three-year period set forth in the tax laws in relation to imposition of related penalties and fines, if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, changes introduced to the Tax Code and effective from 1 January 2007 similarly provide for the extension of the three-year statute of limitations in cases where actions of the taxpayer create an "insurmountable obstacle" for the tax audit. Since the terms "obstructed", "hindered" and "created insurmountable obstacles" are not specifically defined in Russian law, the tax authorities may have broad discretion in interpretation of these terms, effectively linking any difficulty experienced in the course of tax audits with obstruction by the taxpayer creating the basis to assess additional taxes, fines and late payment interest thereon beyond the three-year statute of limitations. As a result, there can be no assurance that the three-year period specified in the statute of limitations will be effective in practice.

It should be noted, however, that on 17 March 2009 the Russian Constitutional Court issued a decision which held unconstitutional provisions of the Russian Tax Code allowing a higher tax authority to repeat any tax audits for the same tax period where there has been a court decision (entered into force and not revisited within the court proceedings) taken in respect of the tax dispute between the relevant taxpayer and the tax authorities over tax matters raised as a result of the initial tax audit. Currently, it is not clear how this decision will be applied and followed in practice by the Russian tax authorities and courts in the future.

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 fulfil its tax obligations in any given year in full and/or timely. This may have a material adverse effect on the Group's tax planning, business, results of operations, financial condition or prospects and the trading price of the GDRs. 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.

In addition, following the replacement of the UST with mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund from 1 January 2010, the authorities responsible for these funds will be empowered to carry out audits in relation to payments of contributions to the respective funds, resulting in increase of the tax administration burden of the Group.

The Group may be deemed to have received unjustified tax benefits.

On 12 October 2006, the Plenum of the Russian Supreme Arbitration Court issued Ruling No. 53, which introduced a concept of the "unjustified tax benefit" defined mainly by reference to specific examples of tax benefits deemed to fall into this category, the application of which may result in disallowance of benefits received. Pursuant to the Ruling, a tax benefit means a reduction in the amount of a tax liability as a result of a reduction of the tax base, the receipt of a tax deduction (recovery), the application of tax relief, the application of a reduced tax rate and the receipt of a right to a recovery (offset) or a refund of a tax from the budget. The Plenum ruled that a tax benefit itself cannot be regarded as a business objective, and such tax benefit can be deemed unjustified if, in particular, tax treatment of operations resulted in such benefit does not conform to their true economic intent or when an operation lacks a reasonable economic or business purpose. On the other hand, the mere fact that a similar economic result might have been obtained with a lesser tax benefit received by the taxpayer as a result of entering into other operations legally permitted or not prohibited, should not be treated as grounds for declaring a tax benefit to be unjustified.

Ruling No. 53 has not yet been the subject of extensive judicial interpretation or consideration by the relevant tax authority, 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 cases relating to this Ruling, which were brought to courts to date, the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Plenum of the Supreme Arbitration Court. To date in many cases where this concept was applied the courts ruled in favour of taxpayers; however, there is no assurance that the courts will follow these precedents in the future. Furthermore, Ruling No. 64 of the Plenum of the Supreme Court of the Russian Federation of 28 December 2006 "Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes" is indicative of a trend to broaden the application of criminal liability for tax violations.

In its decision of 26 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating criteria for it. Similarly, this concept is not defined in Russian tax law. Nonetheless, the concept has been used by the tax authorities in practice in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

The above risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing the Group to significant additional tax liabilities, 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 a 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 concluded with other countries, including Cyprus, also contain a similar concept. However, the practical application of the concept of a permanent establishment under Russian domestic tax law is not well developed and foreign companies having even limited operations in Russia (which would not normally satisfy the criteria for creating a permanent establishment under international rules), may be at risk of being treated as having a permanent establishment in Russia and hence being liable to Russian taxation.

Although the Company seeks to conduct its affairs so that it 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 to be 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 amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia. However, 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 amount of income of a foreign company. Recent events in the Russian Federation suggest that the tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Having a permanent establishment in Russia may also lead to 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, etc. There is also a risk that penalties could be imposed by the tax authorities for the failure to register a permanent establishment with the Russian tax authorities.

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 a material adverse effect on the Group.

The Group operates in various jurisdictions and includes companies incorporated outside of Russia. Current Russian tax laws do not contain detailed rules on taxation of foreign companies in Russia. It is possible that with the evolution of these rules or changes in the approach of the Russian tax authorities, the Group could be subject to additional taxation in Russia in for the operations of its non-Russian entities.

Russian domestic tax legislation in effect on the date of this Memorandum does not contain a concept of the corporate tax residency. Russian companies are taxed on their worldwide income whilst foreign entities are taxed in Russia in respect of income attributable to their Russian permanent establishments and Russian source income. However, the Russian government in its Main Directions of Russian Tax Policy for

2008–2010 has proposed the introduction of the concept of the tax residence for legal entities under domestic tax law, in particular, for the purposes of the avoidance of tax evasion. It has been proposed that the determination of whether a company is a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders.

These changes were initially proposed to be introduced starting from 2009. While such changes have not yet been implemented, no assurance can be currently given as to whether and when these amendments will be enacted and their exact nature, potential interpretation by the tax authorities and the possible impact on the Group further to their introduction can not be predicted either. Nevertheless, the Group may not rule out that as a result of the introduction of these changes, certain of its non-Russian entities might be deemed to be Russian tax residents subject to all applicable Russian taxes. It is conceivable, therefore, that, if enacted, these amendments 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 may be subject to vaguely drafted Russian transfer pricing rules and the imposition of additional tax liabilities with respect to all controlled transactions.

Russian transfer pricing legislation gives the Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), in cases where the transaction price differs upwards or downwards from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterized by significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions entered into by the taxpayer by more than 20 per cent. within a short period of time). Special transfer pricing rules are set out for transactions with securities and derivatives. The Russian transfer pricing rules are vaguely drafted, generally leaving wide scope for their interpretation, thus, resulting in differing interpretations of them by the Russian tax authorities and courts in practice.

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 the Russian tax authorities in relation to a particular transaction, the Russian transfer pricing rules do not provide for the possibility of an offsetting adjustment to the counterparty of the taxpayer under such transaction.

In addition, in 2009 the Russian Ministry of Finance published a draft bill which, if enacted, would introduce substantial amendments to the transfer pricing legislation. Such amendments, if adopted, are expected to result in more stringent transfer pricing rules in particular, since they would grant the Russian tax authorities additional rights with respect to performing control over prices applied by taxpayers for tax purposes. Although this bill is currently under discussion within the Russian government, it is as yet unclear if and when these amendments will be enacted (if at all) and what effect these provisions may have on the Group. Imposition of additional tax liabilities as a result of application of the Russian transfer pricing legislation to transactions carried out by the Russian subsidiaries of the Group 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., whereas such rate may be reduced or eliminated under an applicable double tax treaty. The Company intends to rely on the Russia-Cyprus double tax treaty.

The Russia-Cyprus double tax treaty allows reduction of the withholding tax rate applicable to dividends paid by a Russian company to a Cypriot company down to 10 per cent. provided that the following conditions are simultaneously met: (i) the Cypriot company is a tax resident of Cyprus within the meaning of the Russia-Cyprus double tax 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 and timely performed. This rate can be further reduced to 5 per cent. if the direct investment of the Cypriot company in the Russian company paying the dividends is at least equivalent to USD 100,000. Pursuant to the Protocol to the Russia-Cyprus double tax treaty signed on 16 April 2009 (not in effect yet), it is planned to increase the value of investment to at least EUR 100,000 in the future, which would allow the application of 5 per cent. withholding tax rate.

In May 2009 the Russian President included in his budget message regarding the Budget Policy for 2010 to 2012 the proposal for legislative changes on anti-avoidance mechanisms with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant double tax treaty country. At this stage it is not yet clear how and when exactly this would be addressed as a matter of the tax law and if addressed, what effect it may have on the Group.

The management of the Company believes that the 5 per cent. Russian withholding tax rate should apply to dividends received by the Company from its Russian subsidiaries pursuant to tax relief available under the Russia-Cyprus double tax treaty.

Although the Company will seek to claim treaty protection or benefits where possible, there is a risk that the applicability of the reduced Russian withholding tax 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 tax rate in practice.

Further, the Company will be subject to Russian withholding tax, to be withheld at source at a 15 per cent. rate, which will apply to dividends payable by its Russian subsidiaries, if the treaty clearance procedures are not duly performed by the date when the dividend payment is made. In this case the Company may seek to claim a tax refund from the Russian tax authorities in the amount equal to the difference between the tax withheld at 15 per cent. rate and the tax calculated at the reduced rate of 10 per cent. or 5 per cent. as appropriate. The respective application for the refund may be filed to the tax authorities within a three year period; and the tax authorities are obliged to refund the tax within one month after the receipt of the respective application from the taxpayer (to the extent the right to apply the reduced tax rate is confirmed). However, in practice obtaining a tax refund may take considerably longer and there can be no assurance that such refund will be available.

The Group may encounter difficulties associated with application of 0 per cent. VAT rate to transportation services and with recovery of VAT paid to vendors or at customs.

The Russian Tax Code provides for a zero per cent. VAT rate with respect to services involving the organization and escort of shipment, the carriage or transportation of exported or imported goods and other similar work (services) that are subject to zero per cent. VAT rate. However, in practice many Russian transportation service companies face difficulties in application and confirmation of the zero VAT rate on these services due to, *inter alia,* inconsistencies in the Russian tax, civil and customs legislation. The lack of clarity in the rules creates room for differing views and interpretations by tax authorities, transportation service companies and courts. Court treatment of the VAT rate is inconsistent and varies depending on the precise nature of the particular transportation services and the details of the contractual and operational arrangements.

In view of the above, Russian transportation service companies often take differing approaches with respect to the applicable VAT rate for similar type of services. The buyers of transportation services, transportation service providers or other parties involved in transportation may encounter difficulties recovering VAT charged in the course of business. There have been cases in which the tax authorities challenged the recovery of the 18 per cent. VAT incurred on services associated with transportation of imported/exported goods on the grounds that the seller should have applied a zero per cent. VAT rate instead. Moreover, there has been one case in which a transportation service company was obliged to return to the buyer the VAT amount charged on services provided, despite the fact that the transportation service company had already remitted the amount charged to the tax authorities.

Under the Russian Tax Code, the Group is entitled to reimbursement of the excess of VAT paid to vendors or at customs (***Input VAT***) over VAT collected from the buyers (***Output VAT***), either through cash refunds or offset against future tax liabilities. Many Russian companies, especially those involved in export or import sales (including international transit transportation and transportation of exported or imported cargo), encounter difficulties with obtaining a VAT refund or offset.

In particular, the amount of VAT reimbursement is subject to obligatory confirmation by the tax authorities. At the same time the Group is entitled to earn interest on any VAT reimbursement which have not been timely refunded/offset by the tax authorities. In practice the tax authorities are often extremely formalistic and aggressive in interpretations of VAT legislation in confirming the VAT reimbursement, especially when the taxpayer is making a claim for a VAT refund in cash. As a result, obtaining a VAT refund is usually a time-consuming and burdensome process. In practice, the taxpayer often must appeal to the court for a VAT refund or for an offset against future tax liabilities.

Despite the Group's efforts at compliance, there remains the risk that a portion of the subsidiaries of the Company may not recover the Input VAT or that the recovery may take a significant amount of time. 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.

Currently, the Russian government is considering a potential reduction in the VAT rate. It is difficult to assess at the moment how such change, if and when adopted, may affect the Group's business, but such a rate reduction could potentially involve at least a temporary delay in the recovery of Input VAT.

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 on a regular basis enters into various sale and leaseback arrangements. Generally, Russian law treats sale and leaseback transactions as legally permitted. However, since in practice the sale and leaseback structures may lead to certain tax benefits for the parties involved, 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. The relevant court practice is ambiguous, since the courts have at times taken different views with respect to these transactions from tax standpoint. 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 the future in a manner which may adversely affect the Group. In particular, any such challenges may, if successful, result in additional tax liabilities increasing the cost burden of 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.

Russian tax legislation as in effect on the date of this Memorandum does not provide for the possibility of group tax relief or fiscal unity. Consequently, tax losses of Russian subsidiaries of the Group may not applied to reduce the aggregate tax liability of the Group.

However, the Russian government in its Main Directions of Russian Tax Policy for 2008–2010 has proposed the introduction of the consolidated tax reporting concept that may enable the consolidation of the financial results of taxpayers which are part of one group for corporate tax purposes. At this stage, it is impossible to predict whether, when and how such consolidated tax reporting will be enacted and if enacted, how it would be interpreted by the tax authorities in practice.

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. is 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, is deemed to have distributed this amount as a dividend two years after that year end. Following the completion of the Contribution, the Company will own a 5/6 share of Ingulana Holdings Limited, a Cyprus registered and tax resident limited company. The Defence Tax on deemed dividend distribution may arise in respect of Ingulana Holdings Limited or the Company, as applicable, to the extent such profits are attributable to the shareholders (including the Company in the case of Ingulana Holdings Limited and the holders of the GDRs in the case of the Company) that are Cypriot tax resident persons. 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 in case of companies) 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 to the deemed distribution which relates to the dividends received by such person is refundable.

Interest expenses may not be deductible by the Company.

Interest expenses are tax deductible if they are incurred wholly and exclusively for the production of income. However, no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing assets not used in the business. This provision applies until seven years from the date of purchase of the relevant asset. In this respect, investment in a subsidiary is considered a non-business asset and any interest expense that relates (or is deemed to relate) to the acquisition/financing of such assets (even if a subsidiary is to distribute dividends on a regular basis) is not considered tax deductible.

Consequently, if the Company holds assets not used in the business (such as shares in subsidiaries), all, or part, of the interest expenses of the Company incurred on the loans provided from non-resident lenders (both corporations and individuals) should be considered as non-deductible for tax purposes in Cyprus.

Taxation Risks Relating to Estonia

Estonia may decide to revamp its unique corporate tax system to increase corporate tax rates from the current low levels.

The corporate earnings taxation system currently in force in Estonia is a unique system that shifts the point of taxation from the moment of earning the profits to the moment of their distribution. Corporate income tax is charged on profit distributions such as dividends and implicit distributions (i.e. fringe benefits, gifts and donations, as well as expenditures and payments not related to the business activities of a company). All the above profit distributions are taxed at a rate of 21 per cent. on the gross amount of profit distribution. Corporate income tax imposed on distributed profits is not considered a withholding tax and thus is not subject to the applicable international tax treaties.

This unique tax system has been challenged by both the European Commission and domestic political parties in the opposition. Following the European Court of Justice decision in June 2008, which confirmed that the tax calculated from distributed profits is not a withholding tax, the Estonian government has decided to retain the current tax system. However, there can be no assurances that traditional corporate income tax system will not be reestablished. Should this occur, the Estonian subsidiaries will start paying corporate income tax from earned profits on an annual basis. This would significantly decrease tax planning opportunities and result in a higher effective tax burden since annual taxation of corporate profits and reinvested profits may become subject to tax retroactively.

Possible increase in tax burden.

In addition, despite the recent economic downturn, Estonia has not yet followed the example of many neighboring countries by substantially increasing tax rates. Nevertheless, the increase of the value-added tax rate in July 2009, the increase of unemployment insurance charges in August 2009 and abolishment of planned corporate income tax rate decrease indicate that this policy of low tax rates may not continue. As a result of the economic downturn and a state budget deficit, the government may be forced to increase the overall tax burden with a short advance notice. This could entail increased tax rates, the removal of tax benefits and the introduction of new taxes.

Lack of administrative guidelines and court practice in tax issues.

Interpreting the Estonian tax law is often difficult due to the lack of interpretive guidance and sufficient case law because of the short period of application of current legal acts. The number of tax disputes has increased and tax authorities have applied tax law arbitrarily. There is limited administrative and legal practice available on several important tax issues, meaning that taxpayers often have no other possibility but to ask for binding advance rulings or take a risk of time-consuming court trials. Regardless the final result of these disputes, they increase costs and interrupt everyday business activities.

Estonian tax authorities may challenge the Group's transfer pricing applied to transactions with related parties.

Transfer pricing is one of the priorities of the Estonian tax authorities with regard to international taxation. Group companies are subject to transfer pricing regulation, under which transactions between related parties must comply with an arm's length principle. The transfer pricing regulation in Estonia only came into effect recently, so it is difficult to predict how the regulation will be applied in practice. In the event of a tax audit, the Group's transfer pricing principles may be challenged by the Estonian tax authorities and additional taxes may be charged (plus fines or penalties and interest for late payment). It is not possible to request pre-approval or confirmation from the tax authorities that they agree with the Group's pricing principles, and therefore there can be no assurance that the pricing methodology applied between the Group and its related parties is correct and sufficiently justified for the Estonian tax authorities.

THE GLOBAL OFFERING

The Company	Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus.
The Offering	The Offering consists of an offering of 11,764,705 New GDRs by the Company and 6,914,438 New GDRs by the Selling Shareholder, with each New GDR representing an interest in one Ordinary Share. The New GDRs are being offered outside the United States 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. The Offering by the Company is not conditional upon the Offering by the Selling Shareholder. Pursuant to a shareholders' resolution adopted on 23 November 2009, shareholders will not have pre-emptive rights to subscribe for Ordinary Shares or New GDRs in the Offering. The Selling Shareholder will receive Ordinary Shares with a value at the Offer Price of USD 250 million as consideration for the Contribution and is offering 6,914,438 Ordinary Shares in the Offering in the form of New GDRs. The Selling Shareholder has advised the Company that following the Contribution and the Offering (assuming exercise of the over-allotment option in full) it expects to beneficially own 50.1 per cent. of the Company's issued Ordinary Shares. The Contribution is conditional upon the successful completion of the Offering. Entities controlled by the beneficial owners of EIL, which prior to the Offering was the beneficial owner of 19.5 per cent. of the Ordinary Shares, are acquiring 430,000 New GDRs in the Offering.
Joint Global Coordinators	Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc.
Joint Bookrunners	Deutsche Bank AG, London Branch, Morgan Stanley & Co. International plc and VTB Capital plc.
Co-Lead Manager	UniCredit CAIB Securities UK Ltd.
Offer Price	USD 8.50 per New GDR.
Selling Shareholder	Transportation Investments Holding Limited (***TIHL***), which is a company organised and existing under the laws of Cyprus. See "Principal Shareholders and the Selling Shareholder".
Share Capital	Immediately prior to the Offering, the Company's issued share capital consisted of 116,959,064 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 233,918,128 Ordinary Shares. Immediately following the Offering and the Contribution, the Company's issued share capital will consist of 158,135,533 issued Ordinary Shares. See "Description of Share Capital and Applicable Cypriot Law" and "Principal Shareholders and the Selling Shareholder".
Depositary	The Bank of New York Mellon.
New GDRs	Each New GDR will represent one Ordinary Share on deposit with the Custodian on behalf of the Depositary. The New GDRs will be issued by the Depositary pursuant to the deposit agreement between the Company and the Depositary dated 7 May 2008 (the ***Deposit Agreement***). 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 Depositary

	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 Depositary Receipts".
Over-Allotment Option	The Selling Shareholder has granted to the Joint Bookrunners an Over-Allotment Option to purchase up to 1,867,914 additional New GDRs at the Offer Price. The Over-Allotment Option is exercisable by the Joint Global Coordinators 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 30th day following the announcement of the Offer Price upon written notice from the Joint Global Coordinators to the Selling Shareholder and to the extent not previously exercised by the Joint Bookrunners may be terminated by the Joint Bookrunners at any time. See "Plan of Distribution".
Closing Date	The New GDRs are expected to be issued, and payment for them made, on or about 14 December 2009.
Listing	The FSA in its capacity as competent authority under the FSMA has granted the admission to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 116,959,064 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York Mellon (the ***Depositary***), of which 37,309,941 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.
Lock-Up	The Company, the Selling Shareholder and EIL have each 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 Global Coordinators: (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 "Plan of Distribution".
Use of Proceeds	The Company will receive gross proceeds of approximately USD 100 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 7.5 million. The Group intends to use the net proceeds from the Offering for the acquisition of new rolling stock and for general corporate purposes. The Group will not receive any proceeds from the New GDRs being sold by the Selling Shareholder. See "Use of Proceeds".

Taxation	For a discussion of certain Cyprus, United States and United Kingdom tax consequences of purchasing and holding the New GDRs, see "Taxation".
Dividend Policy	Holders of the GDRs are 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. It is the Company's policy not to pay dividends on the Ordinary Shares for the foreseeable future. The Company 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. 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".
Voting Rights	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".
Transfer Restrictions	The GDRs will be subject to certain restrictions as described under "Selling and Transfer Restrictions—Transfer Restrictions".
Settlement and Transfer	The New 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. The Rule 144A GDRs have been accepted into DTC's book-entry settlement system. The Rule 144A GDRs will be represented by the Rule 144A Master GDR held in a book-entry form and registered in the name of Cede & Co., as nominee for DTC. The Regulation S Master GDR is registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg have accepted 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 New 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, including the New 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

USE OF PROCEEDS

The Company will receive gross proceeds of approximately USD 100 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 7.5 million.

The Group intends to use the net proceeds from the Offering for the acquisition of new rolling stock and for general corporate purposes.

The Group will not receive any proceeds from the New GDRs being sold by the Selling Shareholder.

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 New GDRs on the relevant record date will be entitled to receive dividends payable in respect of Ordinary Shares underlying the New 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 New GDRs net of currency conversion expenses and subject to fees charged by the Bank of New York Mellon. See "Terms and Conditions of the Global Depositary Receipts".

It is the Company's policy not to pay dividends on the Ordinary Shares for the foreseeable future. The Company 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 subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by such subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves and, in the case of 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".

GDR TRADING HISTORY

History of the Trading of the GDRs on the London Stock Exchange

The tables below set forth, for the periods indicated, the high and low market close prices and average daily trading volumes of the GDRs on the London Stock Exchange since the IPO.

	Closing Price per GDR		Average Daily Trading Volume	Average Daily Trading Value
	High	Low	GDR	USD
	(USD)			
Year ended				
31 December 2008	16.53	1.40	224,649	3,733,686
Quarter				
Q2 April–June 2008	16.53	13.12	642,942	8,855,729
Q3 July–September 2008	16.50	8.50	101,822	1,361,685
Q4 October–December 2008	8.74	1.40	79,507	183,754
Q1 January–March 2009	1.75	0.84	118,082	160,626
Q2 April–June 2009	5.00	1.50	142,179	432,323
Q3 July–September 2009	7.40	4.00	97,181	538,708
Month ended				
30 April 2009	3.50	1.50	294,223	748,835
31 May 2009	4.50	3.50	114,632	460,298
30 June 2009	5.00	4.00	27,748	120,424
31 July 2009	4.70	4.00	42,220	183,416
31 August 2009	5.70	4.50	67,233	316,527
30 September 2009	7.40	5.20	181,865	1,112,131
31 October 2009	9.69	7.55	143,362	1,288,994
30 November 2009	9.45	8.23	109,727	986,685
Period from 1 December to 8 December 2009	9.10	8.60	122,536	1,104,298

Source: Bloomberg

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, current borrowings and capitalisation as at 30 June 2009, on an actual basis, as adjusted for the Contribution and as further adjusted for the Offering.

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 30 June 2009		
	Actual	**As adjusted for the Contribution(1)**	**As further adjusted for the Offering(2)**
		(USD in thousands)	
Cash and cash equivalents	**64,216**	**71,551**	**164,051**
Current borrowings(3)	**131,373**	**150,914**	**150,914**
Non-current borrowings(4)			
Bank borrowings	82,419	91,448	91,448
Loans from third parties	2,618	2,618	2,618
Loan from related parties	3,000	3,000	3,000
Finance lease liabilities	175,519	175,519	175,519
Total non-current borrowings	**263,556**	**272,585**	**272,585**
Equity attributable to the shareholders of the Company	380,295	459,633	552,133
Minority interest in equity	31,208	95,879	95,879
Total equity	**411,503**	**555,512**	**648,012**
Net assets attributable to participants	—	16,168	16,168
Total capitalisation	**675,059**	**844,265**	**936,765**

(1) Includes expenses incurred by the Company in relation to the Contribution of approximately USD 1.5 million. Does not reflect any transactions that have taken place subsequent to 30 June 2009, including distribution of dividends in the amount of RUB 1,500,000 thousand declared in October 2009 to the participants of BTS. See "Business and Financial Information of BTS—Recent Developments".

(2) 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 7.5 million as referred to in "Use of Proceeds".

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

(4) 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—Recent Developments", there has been no material change in the Group's capitalisation since 30 June 2009.

DILUTION

As at 30 June 2009, the Group's consolidated net assets were USD 380.3 million, or USD 3.25 per Ordinary Share, based on 116,959,064 Ordinary Shares outstanding. The Group's consolidated net assets represent, for the purpose of this calculation, total assets less total liabilities less minority interest. Consolidated net assets per Ordinary Share is determined by dividing the Group's consolidated net assets 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. As the Contribution is taking place concurrently with the Offering, dilution has been calculated taking into account the effect of the Contribution. Upon the issue of 41,176,469 Ordinary Shares in connection with the Offering and as consideration for the Contribution, the Company is expected to receive approximately USD 100 million in gross proceeds before the deduction of commissions, fees and expenses in connection with the Offering and an additional approximately USD 250 million in asset value for the Contribution. In accordance with the Group's accounting policy, the effect of the Contribution is to be accounted for under the predecessor basis. Therefore, the book value of these assets will be different. For further details refer to "Pro Forma Financial Information".

After giving effect to the new issue of Ordinary Shares in connection with the Offering and the Contribution, as if such new issue had taken place by 30 June 2009, the Group's consolidated net assets as at 30 June 2009 would have been USD 3.49 per Ordinary Share. This represents an immediate increase in the Group's consolidated net assets per Ordinary Share of USD 0.24 to existing shareholders and an immediate dilution in the Group's consolidated net assets per Ordinary Share of USD 5.01 to new investors who purchased New GDRs representing Ordinary Shares in the Offering.

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

	USD	
Offer Price		8.50
Consolidated net assets per Ordinary Share as at 30 June 2009	3.25	
Decrease in consolidated net assets per Ordinary Share attributable to the Contribution	(0.11)	
Increase in consolidated net assets per Ordinary Share attributable to investors purchasing New GDRs in the Offering	0.35	
Consolidated net assets per Ordinary Share after the Offering and the Contribution		3.49
Dilution per GDR to new investors purchasing New GDRs in the Offering		5.01

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected financial information set forth below has been extracted from the Consolidated Financial Statements included in this Offering Memorandum as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and 2007. The selected consolidated financial information as at and for the years ended 31 December 2007 and 2006 extracted from the Consolidated Financial Statements for such years is incorporated by reference in this Offering Memorandum. See "Incorporation by Reference". The other information set forth below shows certain (non-GAAP) financial information and operating information as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and 2007. For consolidated condensed capsule financial information and certain operating information for the Group as at and for the nine-month periods ended 30 September 2009 and 2008, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments". For the financial results, additional (non-GAAP) financial information and certain operating information as at and for the six-month periods ended 30 June 2009 and 2008, and as at and for the years ended 31 December 2008 and 2007 for BTS, see "Business and Financial Information of BTS". For information concerning the pro forma effects of the Contribution see "Pro Forma Financial Information". For additional operating information, see "Appendix I: Operating Information and Relevant Definitions".

Consolidated Income Statement Data

	Six months ended 30 June		Years ended 31 December	
	2009	2008(1)	2008	2007(1)
	(unaudited)		(audited)	(unaudited)
	(USD in thousands)			
Revenue	215,573	341,622	660,870	605,032
Cost of sales	(143,074)	(207,469)	(401,397)	(419,897)
Gross profit	**72,499**	**134,153**	**259,473**	**185,135**
Selling and marketing costs	(695)	(1,178)	(2,179)	(1,374)
Administrative expenses	(18,202)	(26,480)	(52,735)	(45,003)
Other gains—net	474	2,256	3,209	6,277
Operating profit	**54,076**	**108,751**	**207,768**	**145,035**
Finance income	695	1,607	3,394	6,148
Finance costs	(45,197)	(8,763)	(99,777)	(29,950)
Finance costs—net	**(44,502)**	**(7,156)**	**(96,383)**	**(23,802)**
Share of profit/(loss) of associates	331	546	556	(658)
Profit before income tax	**9,905**	**102,141**	**111,941**	**120,575**
Income tax income/(expense)	1,048	(24,160)	(14,565)	(27,834)
Profit for the period	**10,953**	**77,981**	**97,376**	**92,741**
Attributable to:				
Equity holders of the Company	6,370	72,292	90,934	86,364
Minority interest	4,583	5,689	6,442	6,377
	10,953	**77,981**	**97,376**	**92,741**
Basic and diluted earnings per share for profit attributed to equity holders (in USD per share)	0.05	0.66	0.82	0.86

Selected consolidated balance sheet data

	As at 30 June 2009	As at 31 December 2008	2007[1]
	(unaudited)	(audited)	(unaudited)
		(USD in thousands)	
Assets			
Non-current assets	706,634	770,864	790,391
Non-current assets held for sale	10,871	—	—
Current assets	170,772	225,196	167,349
Total assets	**888,277**	**996,060**	**957,740**
Equity and liabilities			
Capital and reserves	380,295	395,117	252,358
Minority interest	31,208	26,325	26,470
Total equity	**411,503**	**421,442**	**278,828**
Non-current liabilities	289,735	361,518	395,413
Current liabilities	187,039	213,100	283,499
Total liabilities	**476,774**	**574,618**	**678,912**
Total equity and liabilities	**888,277**	**996,060**	**957,740**

Additional (Non-GAAP) financial information

	Six months ended 30 June		Years ended 31 December	
	2009	2008[1]	2008	2007[1]
		(USD in thousands)		
Adjusted Revenue[2][3]	180,222	251,370	497,523	404,974
Net Revenue from Operation of Rolling Stock[2][4]	149,207	219,326	433,933	352,792
EBITDA[2][5]	52,317	151,344	205,811	209,715
Adjusted EBITDA[2][6]	74,570	129,668	250,266	177,403
Empty Run Costs[2][7]	45,604	39,267	86,744	82,476
ROCE[2][8]	15%	n/a	24%	n/a

Operating information

	Six months ended 30 June[9]		Years ended 31 December[10]	
	2009	2008	2008	2007
Freight rail turnover (billion tonnes-km)[11]	31.2	32.6	61.7	61.0
Transportation volume (million tonnes)	16.0	16.8	33.3	35.4
Average price per trip (USD)[12]	590.2	812.2	816.0	616.8
Empty Run ratio for gondola (open top) cars[13]	54%	19%	32%	21%
Average number of loaded trips per railcar[14]	12.5	13.5	26.5	28.2
Average distance of loaded trips (km)	1,969.4	1,930.7	1,855.4	1,751.5
Average rolling stock operated[15]	20,194	20,047	20,057	20,303
Total rolling stock owned and leased under finance and operating leases (at period end)	26,347	25,885	26,967	25,494

(1) The Consolidated Financial Statements for the six months ended 30 June 2008, for the years ended 31 December 2008 and 2007 and as at 31 December 2007 includes the Estonian Subsidiaries under the predecessor basis of accounting. The 2007 information is unaudited but has been derived from the audited Consolidated Financial Statements for 2007 and adjusted to take into account the transfer of the Estonian Subsidiaries to the Group. See "Presentation of Financial and Other Information".

(2) Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA, Empty Run Costs and ROCE are non-GAAP measures presented as supplemental measures of the Group's operating performance. 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 results as reported under EU IFRS. See "Presentation of Financial and Other Information". Reconciliations of Adjusted Revenue to revenue, Net Revenue from Operation of Rolling Stock to revenue, and EBITDA and Adjusted EBITDA to profit for the period are set out below.

Reconciliation of Adjusted Revenue to Revenue

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(USD in thousands)			
Total revenue—operator's services	183,877	298,539	578,860	544,872
Operating leasing of rolling stock	31,015	30,546	66,661	51,693
Minus				
Infrastructure and locomotive charges: loaded trips	(34,670)	(77,715)	(147,998)	(191,591)
Adjusted Revenue	**180,222**	**251,370**	**497,523**	**404,974**

Reconciliation of Net Revenue from Operation of Rolling Stock to Railway Transportation—Operators Services

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(USD in thousands)			
Revenue from railway transportation—operators services (tariff borne by the Group)	61,019	129,420	241,424	292,084
Revenue from railway transportation—operators services (tariff borne by the client)	122,858	169,119	337,436	252,788
Minus				
Adjustment for Estonian Subsidiaries(*)	—	(1,498)	3,071	(489)
Infrastructure and locomotive charges: loaded trips	(34,670)	(77,715)	(147,998)	(191,591)
Net Revenue from Operation of Rolling Stock	**149,207**	**219,326**	**433,933**	**352,792**

(*) This adjustment reflects the impact of the consolidation of the Estonian Subsidiaries and is associated with freight rail transportation services previously rendered by Spacecom and discontinued in the first half of 2008.

Reconciliation of EBITDA and Adjusted EBITDA to Profit for the Period

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(USD in thousands)			
Profit for the period	**10,953**	**77,981**	**97,376**	**92,741**
Plus (Minus)				
Income tax (income)/expense	(1,048)	24,160	14,565	27,834
Net finance costs	44,502	7,156	96,383	23,802
Net foreign exchange transaction gains/(losses) on financing activities	(23,058)	18,874	(48,220)	26,693
Depreciation of property, plant and equipment	20,968	23,173	45,707	38,645
EBITDA	**52,317**	**151,344**	**205,811**	**209,715**
Minus (Plus)				
Net foreign exchange transaction gains/(losses) on financing activities	(23,058)	18,874	(48,220)	26,693
Share of profit/(loss) of associates	331	546	556	(658)
Other gains/(losses)—net	474	2,256	3,209	6,277
Adjusted EBITDA	**74,570**	**129,668**	**250,266**	**177,403**

(3) Adjusted Revenue is calculated as "total revenue—operator's services" plus "total revenue—operating lease" less "infrastructure and locomotive tariffs: loaded trips".

(4) Net Revenue from Operation of Rolling Stock is defined as "revenue from railway transportation—operator's services" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods).

(5) 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.

(6) Adjusted EBITDA represents EBITDA less net foreign exchange gains/(losses) on financing activities, share of profit/(loss) of associates and other gains/(losses)—net. Other gains/(losses)—net include gains from the sale of subsidiaries, recognised deferred gains and other gains and losses.

(7) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips and services provided by other transportation organisations" component of cost of sales reported under EU IFRS. Empty Run Costs excludes the impact of the transfer and consolidation of Spacecom and Intopex for all periods.

(8) ROCE is defined as Adjusted EBITDA (last twelve months basis) less depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity (including minority interest) and total borrowings.

(9) Represents periods ended 30 June 2009 and 2008, except for total rolling stock owned or leased under operating and finance lease (at period end), which is as at 30 June 2009 and 2008, respectively.

(10) Represents years ended 31 December 2008 and 2007, except for total rolling stock owned or leased under operating and finance lease (at period end), which is as at 31 December 2008 and 2007, respectively.

(11) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

(12) Average Price Per trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(13) Empty Run ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. 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).

(14) Average number of loaded trips per railcar is calculated as total number of loaded trips in the relevant period divided by average rolling stock operated.

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

PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information (***Unaudited Pro Forma Financial Information***) is provided for illustrative purposes only and does not purport to represent what the actual results of operations or the financial position of the Group would have been had the Offering and the contribution of 50 per cent. of BTS to the Company (see "Contribution of BTS") occurred on the date described below, nor is it necessarily indicative of the operating results or financial position of the Group for any future periods. The Unaudited Pro Forma Financial Information reflects management's best estimates. The actual consolidated financial position and results of operations of the Group may differ significantly from the pro forma amounts reflected herein because of various factors.

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Offering and the contribution of 50 per cent. of BTS to the Company on the consolidated income statements of the Group for the six-month period ended 30 June 2009 and the year ended 31 December 2008 and on the Group's net assets as if the contribution had taken place as of 1 January 2008.

If BTS is contributed by the shareholders of the Company, its contribution to the Group will be from an entity under common control with the Group. In accordance with the Company's accounting policies, BTS will be treated as a consolidated subsidiary as at and for the years ended 31 December 2009 and 2008 under the predecessor basis of accounting. Under this method, financial statements of the contributed subsidiary are included in the consolidated financial statements as though the Group (in such a composition) was in existence for all periods presented.

This Unaudited Pro Forma Financial Information has been extracted from, and should be read in conjunction with (i) the Consolidated Financial Statements, prepared in accordance with EU IFRS, as at and for the six-months ended 30 June 2009 and as at and for the year ended 31 December 2008 and (ii) the BTS Financial Statements, prepared in accordance with IFRS, as at and for the six-months ended 30 June 2009 and as at and for the year ended 31 December 2008, included in this Offering Memorandum.

The Unaudited Pro Forma Financial Information has been based on the Consolidated Financial Statements and adjusted for the BTS Financial Statements and other applicable adjustments. The Unaudited Pro Forma Financial Information has been prepared based on the unified accounting policies which are described in detail in the Consolidated Financial Statements. In the Consolidated Financial Statements, the predecessor values method to account for the common control transactions has been used. Under this method, the BTS Financial Statements are included in the Consolidated Financial Statements using pre-acquisition IFRS carrying amounts using uniform accounting policies, as though the Group was in existence for all periods presented in the Consolidated Financial Statements. The excess of the cost of acquisition over the carrying amount of the Group's share of identifiable net assets is recorded in equity.

The adjustments made in order to present the Unaudited Pro Forma Financial Information have been made based on available information and assumptions that management believes are reasonable.

All pro forma adjustments in respect of the income statements are expected to have a continuing impact on the Group.

The Unaudited Pro Forma Financial Information does not reflect any transactions subsequent to 30 June 2009, including the distribution of dividends in the amount of RUB 1,500,000 thousand declared in October 2009 to the participants of BTS. See "Business and Financial Information of BTS—Recent Developments" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

Unaudited Pro Forma Financial Information – Income Statement

	Six months ended 30 June 2009					
	Globaltrans	BTS	Adjustments for the Contribution[f]	Pro Forma as adjusted for the Contribution	Adjustments for the Offering[g]	Pro Forma as adjusted for the Contribution and Offering
	(USD in thousands)					
Revenue[*]	215,573	343,826	(2,766)[c]	556,633	—	556,633
Cost of sales[*]	(143,074)	(291,790)	2,766[c]	(432,098)	—	(432,098)
Gross profit	**72,499**	**52,036**	**—**	**124,535**	**—**	**124,535**
Selling, marketing and administrative expenses	(18,897)	(5,339)	—	(24,236)	—	(24,236)
Other gains/(losses)—net	474	(576)	—	(102)	—	(102)
Operating profit	**54,076**	**46,121**	**—**	**100,197**	**—**	**100,197**
Finance income	695	89	—	784	—	784
Distribution to participants	—	(26,060)	23,453[d]	(2,607)	—	(2,607)
Finance costs	(45,197)	(1,980)	—	(47,177)	—	(47,177)
Finance costs—net	**(44,502)**	**(27,951)**	**23,453**	**(49,000)**		**(49,000)**
Share of profit of associates	331	—	—	331	—	331
Profit before tax	**9,905**	**18,170**	**23,453**	**51,528**	**—**	**51,528**
Income tax expense	1,048	(8,857)	—	(7,809)	—	(7,809)
Profit after tax	**10,953**	**9,313**	**23,453**	**43,719**	**—**	**43,719**
Attributable to:						
Equity holders of the Company	6,370	—	17,686[e]	24,056	—	24,056
Minority interest	4,583	—	15,080[e]	19,663	—	19,663
Participants	—	9,313	(9,313)	—	—	—
Profit for the period	**10,953**	**9,313**	**23,453**	**43,719**	**—**	**43,719**
Earnings per share for profit attributable to the equity holders of the Company						
Weighted average number of ordinary shares in issue (in thousands)	116,959	—	29,412	146,371[f]	11,765	158,136[g]
—basic and diluted (in USD per share)	0.05	—	0.11	0.16	(0.01)	0.15

(*) See supplemental schedule of Revenue and Cost of sales on the following page.

Supplemental schedule of Revenue and Cost of sales

	Six months ended 30 June 2009					
	Globaltrans	BTS	Adjustments for the Contribution[f]	Pro Forma as adjusted for the Contribution	Adjustments for the Offering[g]	Pro Forma as adjusted for the Contribution and Offering
	(USD in thousands)					
Revenue						
Railway transportation—operators services (tariff borne by the Group)	61,019	339,162	—	400,181	—	400,181
Railway transportation—operators services (tariff borne by the client)	122,858	—	—	122,858	—	122,858
Railway transportation—freight forwarding	168	—	—	168	—	168
Operating leasing of rolling stock	31,015	4,158	(2,766)[c]	32,407	—	32,407
Sale of wagons and locomotives	181	—	—	181	—	181
Other	332	506	—	838	—	838
Total revenue	**215,573**	**343,826**	**(2,766)**	**556,633**	**—**	**556,633**
Cost of sales						
Infrastructure and locomotive tariffs—loaded trips	34,670	192,672	—	227,342	—	227,342
Infrastructure and locomotive tariffs—empty run trips and services provided by other transportation organisations	52,111	53,701	—	105,812	—	105,812
Infrastructure and locomotive tariffs	**86,781**	**246,373**	**—**	**333,154**	**—**	**333,154**
Operating lease rentals—rolling stock	9,095	11,873	(2,766)[c]	18,202	—	18,202
Employee benefit expense	3,171	1,857	—	5,028	—	5,028
Repair and maintenance	20,505	13,036	—	33,541	—	33,541
Depreciation of property, plant and equipment	20,654	5,204	—	25,858	—	25,858
Gain on sale of property, plant and equipment	196	—	—	196	—	196
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	178	—	—	178	—	178
Fuel and spare parts	526	7,882	—	8,408	—	8,408
Engagement of locomotive crews	309	4,485	—	4,794	—	4,794
Impairment charge for property, plant and equipment	346	—	—	346	—	346
Other expenses	1,313	1,080	—	2,393	—	2,393
Total cost of sales	**143,074**	**291,790**	**(2,766)**	**432,098**	**—**	**432,098**

Unaudited Pro Forma Financial Information – Income Statement

	Year ended 31 December 2008					
	Globaltrans	BTS	Adjustments for the Contribution[f]	Pro Forma as adjusted for the Contribution	Adjustments for the Offering[g]	Pro Forma as adjusted for the Contribution and Offering
	(USD in thousands)					
Revenue[*]	660,870	797,331	(13,172)[c]	1,445,029	—	1,445,029
Cost of sales[*]	(401,397)	(699,891)	13,172[c]	(1,088,116)	—	(1,088,116)
Gross profit	**259,473**	**97,440**	**—**	**356,913**	**—**	**356,913**
Selling, marketing and administrative expenses	(54,914)	(14,235)	—	(69,149)	—	(69,149)
Other gains/(losses)—net	3,209	(1,787)	—	1,422	—	1,422
Operating profit	**207,768**	**81,418**	**—**	**289,186**	**—**	**289,186**
Finance income	3,394	720	—	4,114	—	4,114
Distribution to participants	—	(42,213)	37,992[d]	(4,221)	—	(4,221)
Finance costs	(99,777)	(15,810)	—	(115,587)	—	(115,587)
Finance costs—net	**(96,383)**	**(57,303)**	**37,992**	**(115,694)**	**—**	**(115,694)**
Share of profit of associates	556	—	—	556	—	556
Profit before tax	**111,941**	**24,115**	**37,992**	**174,048**	**—**	**174,048**
Income tax expense	(14,565)	(16,536)	—	(31,101)	—	(31,101)
Profit after tax	**97,376**	**7,579**	**37,992**	**142,947**	**—**	**142,947**
Attributable to:						
Equity holders of the Company	90,934	—	24,896[e]	115,830	—	115,830
Minority interest	6,442	—	20,675[e]	27,117	—	27,117
Participants	—	7,579	(7,579)	—	—	—
Profit for the year	**97,376**	**7,579**	**37,992**	**142,947**	**—**	**142,947**
Earnings per share for profit attributable to the equity holders of the Company						
Weighted average number of ordinary shares in issue (in thousands)	111,074	—	29,412	140,486[f]	11,765	152,251[g]
—basic and diluted (in USD per share)	0.82	—	—	0.82	(0.06)	0.76

(*) See supplemental schedule of Revenue and Cost of sales on the following page.

Supplemental schedule of Revenue and Cost of sales

	Year ended 31 December 2008					
	Globaltrans	BTS	Adjustments for the Contribution	Pro Forma as adjusted for the Contribution[f]	Adjustments for the Offering[g]	Pro Forma as adjusted for the Contribution and Offering
	(USD in thousands)					
Revenue						
Railway transportation—operators services (tariff borne by the Group)	241,424	783,477	—	1,024,901	—	1,024,901
Railway transportation—operators services (tariff borne by the client)	337,436	—	—	337,436	—	337,436
Railway transportation—freight forwarding	5,412	—	—	5,412	—	5,412
Operating leasing of rolling stock	66,661	13,579	(13,172)[c]	67,068	—	67,068
Sale of wagons and locomotives	9,726	—	—	9,726	—	9,726
Other	211	275	—	486	—	486
Total revenue	**660,870**	**797,331**	**(13,172)**	**1,445,029**	**—**	**1,445,029**
Cost of sales						
Infrastructure and locomotive tariffs—loaded trips	147,998	455,633	—	603,631	—	603,631
Infrastructure and locomotive tariffs—empty run trips and services provided by other transportation organisations	101,220	129,744	—	230,964	—	230,964
Infrastructure and locomotive tariffs	**249,218**	**585,377**	**—**	**834,595**	**—**	**834,595**
Operating lease rentals—rolling stock	31,604	25,826	(13,172)[c]	44,258	—	44,258
Employee benefit expense	9,816	4,215	—	14,031	—	14,031
Repair and maintenance	52,077	29,628	—	81,705	—	81,705
Depreciation of property, plant and equipment	44,949	14,374	—	59,323	—	59,323
Gain on sale of property, plant and equipment	(2,523)	—	—	(2,523)	—	(2,523)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	8,967	—	—	8,967	—	8,967
Fuel and spare parts	3,488	27,239	—	30,727	—	30,727
Engagement of locomotive crews	905	10,932	—	11,837	—	11,837
Other expenses	2,896	2,300	—	5,196	—	5,196
Total cost of sales	**401,397**	**699,891**	**(13,172)**	**1,088,116**	**—**	**1,088,116**

Unaudited Pro Forma Financial Information – Balance Sheet

	As at 30 June 2009					
	Globaltrans	BTS	Adjustments for the Contribution[f]	Pro Forma as adjusted for the Contribution	Adjustments for the Offering[g]	Pro Forma as adjusted for the Contribution and Offering
	(USD in thousands)					
Assets						
Non-current assets						
Property, plant and equipment	691,136	156,295	—	847,431	—	847,431
Investments in associates	1,308	—	—	1,308	—	1,308
Trade and other receivables	14,190	—	—	14,190	—	14,190
Total non-current assets	**706,634**	**156,295**	**—**	**862,929**	**—**	**862,929**
Current assets						
Inventories	1,098	3,946	—	5,044	—	5,044
Trade and other receivables	98,990	32,186	(976)[a]	130,200	—	130,200
Current income tax assets	6,468	19	—	6,487	—	6,487
Cash and cash equivalents	64,216	8,835	(1,500)[f]	71,551	92,500[g]	164,051
Total current assets	**170,772**	**44,986**	**(2,476)**	**213,282**	**92,500**	**305,782**
Non-current assets held for sale	10,871	—	—	10,871	—	10,871
Total assets	**888,277**	**201,281**	**(2,476)**	**1,087,082**	**92,500**	**1,179,582**
Equity and liabilities						
Capital and reserves						
Equity attributable to the shareholders of the Company	380,295	—	79,338[b][f]	459,633	92,500[g]	552,133
Minority interest in equity	31,208	—	64,671[b]	95,879	—	95,879
Total equity	**411,503**	**—**	**144,009**	**555,512**	**92,500**	**648,012**
Net assets attributable to participants	**—**	**161,677**	**(145,509)[b]**	**16,168**	**—**	**16,168**
Non-current liabilities						
Borrowings	263,556	9,029	—	272,585	—	272,585
Trade and other payables	11,974	617	—	12,591	—	12,591
Deferred gains	629	—	—	629	—	629
Deferred income tax liabilities	13,576	318	—	13,894	—	13,894
Total non-current liabilities	**289,735**	**9,964**	**—**	**299,699**	**—**	**299,699**
Current liabilities						
Borrowings	131,373	19,541	—	150,914	—	150,914
Trade and other payables	55,309	6,791	(976)[a]	61,124	—	61,124
Deferred gains	325	—	—	325	—	325
Current income tax liabilities	32	3,308	—	3,340	—	3,340
Total current liabilities	**187,039**	**29,640**	**(976)**	**215,703**	**—**	**215,703**
Total liabilities, excluding net assets, attributable to participants	**476,774**	**39,604**	**(976)**	**515,402**	**—**	**515,402**
Total equity and liabilities	**888,277**	**201,281**	**(2,476)**	**1,087,082**	**92,500**	**1,179,582**

Notes to Unaudited Pro Forma Financial Information

Basis of preparation

The Consolidated Financial Statements are prepared in accordance with EU IFRS, and the BTS Financial Statements are prepared in accordance with IFRS. The Globaltrans and BTS financial information included in the Unaudited Pro Forma Financial Information – Income Statement and the Unaudited Pro Forma Financial Information – Balance Sheet have been extracted from the Group's Consolidated Financial Statements and BTS Financial Statements, respectively, as included in this Offering Memorandum.

Translation of BTS Financial Statements

The BTS Financial Statements are presented in Roubles. In the Unaudited Pro Forma Financial Information, the BTS financial information is presented in US Dollars in order to be consistent with the Group's presentation currency. Balance sheet items have been translated into US Dollars at the exchange rate prevailing at the date of the relevant balance sheet, whereby income and expense items are translated into US Dollars at average exchange rates for the respective periods, which approximate to the exchange rates existing at the dates of the transactions. For information on the rates for the relevant periods, see "Presentation of Financial and Other Information".

BTS

BTS is a limited liability company incorporated in the Russian Federation. The equity participants in such companies have the right to withdraw and request redemption of their interests in the company in cash. The company's obligation to redeem gives rise to a financial liability under IFRS even though the redemption is conditional on the participant exercising the right. As a practical expedient, BTS measures the liability presented as "Net assets attributable to participants" at the IFRS carrying value of the company's net assets that are or could become distributable to its participants.

After the Contribution, the Group will indirectly own a 50 per cent. share of BTS; TIHL will indirectly own a 40 per cent. share of BTS and 10 per cent. of the shares of BTS will be owned directly by unrelated minority shareholders. On consolidation, the Group's interest is recorded as equity; TIHL's interest is recorded as a minority interest as part of the Group's equity, but since the unrelated minority shareholders retain the right to redeem their interests in BTS in cash, their interest in BTS remains recorded as "Net assets attributable to participants".

Distributions to participants are recorded as a finance cost in the income statement in the BTS Financial Statements. After the Contribution, the 10 per cent. interest of the unrelated minority shareholders will remain recorded as a finance cost; however, the remainder of the distributions to participants have not been deducted in the income statement of BTS included in the Unaudited Pro Forma Financial Information.

Reclassifications

Certain reclassification adjustments have been made to the financial information included in the Unaudited Pro Forma Financial Information from that as presented in the Consolidated Financial Statements for the year ended 31 December 2008 and for the six-month period ended 30 June 2009, and the BTS Financial Statements for the year ended 31 December 2008 and for the six-month period ended 30 June 2009, in order to present similar income and expenses of the Group and BTS within the same line items.

The reclassification adjustments made are as follows:

(1) "Fuel and spare parts" and "Engagement of locomotive crews" which were included within "Repair and maintenance" in "Cost of sales" in the Consolidated Financial Statements are shown separately in the Pro Forma consistent with the presentation in the BTS Financial Statements.

(2) Taxes other than those on income which were included within "Cost of sales" in the BTS Financial Statements are re-classified to "Selling, marketing and administrative expenses".

(3) "Other income" and "Other expense" line items presented in the BTS Financial Statements are re-classified as "Other gains/(losses)—net".

(4) "Amortisation of the issued guarantee"; "Interest expense—borrowings" and "Foreign exchange (loss)/ gain on non-operating activities" which are presented separately in the BTS Financial Statements are re-classified as "Finance costs".

Adjustments

(a) Elimination of trade and other receivables/payables between the Group and BTS (as extracted from the Group and BTS accounting records).

(b) Adjustment to equity to reflect the Group's and TIHL's interest in BTS after the Contribution, to reflect their 50 per cent. and 40 per cent. ownership interests, respectively.

(c) Elimination of sales/purchases between the Group and BTS (as extracted from the Group and BTS accounting records).

(d) Adjustment to "distribution to participants" to present only that element attributable to the unrelated minority shareholder who will retain their 10 per cent. direct interest in BTS after the Contribution.

(e) Adjustment to reflect the Group's and TIHL's interest in the earnings of BTS after the Contribution, to reflect their 50 per cent. and 40 per cent. ownership interests respectively.

(f) Adjustment to reflect the issuance of 29,411,764 shares at USD 8.50 per share to the Selling Shareholder in connection with the Contribution. The difference between the value of the shares issued and the net assets of BTS is USD 169 million, and, after deduction of estimated fees and expenses of USD 1.5 million, is recorded as an adjustment within equity.

(g) Adjustment to reflect the net proceeds of the Offering from the issue of 11,764,705 shares at USD 8.50 per share, after deducting estimated underwriting commissions, fees and expenses incurred in connection with the Offering.

Dividends

As described in Note 14 of the BTS Financial Statements for the year ended 31 December 2008, in accordance with Russian legislation, BTS distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. No adjustments have been recorded in the Unaudited Pro Forma Financial Information to reflect the potential tax consequences of such dividends being paid to the shareholders. All such dividend payments to the Group as a shareholder would typically be subject to a five per cent. withholding tax deduction provided certain conditions are met under the double taxation treaty in effect between the Russian Federation and Cyprus.

Taxation

No adjustment has been made to reflect any possible future tax charges or benefits that might occur as the result of the Contribution or the Offering.

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 Offering Memorandum 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 Offering Memorandum, 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 owned rolling stock, after Russian Railways and its subsidiaries. The Group provides (i) freight rail transportation, (ii) railcar leasing, and (iii) certain ancillary services in Russia, Kazakhstan and Ukraine.

The Group provides services to more than 450 customers, and its key customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil products and oil, and other major sectors of the Russian economy, including MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel and Mechel, and as well as their affiliates and suppliers.

The core elements of the Group's business model are freight rail transportation which accounted for 83.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009, complemented by its railcar leasing business which accounted for 16.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009.

The Group's extensive rolling stock fleet comprises several types of railcars, including gondola (open top) cars, rail tank cars, other cars and locomotives, with a focus on gondola (open top) cars and rail tank cars.

The Group's freight rail transportation business is based on (a) an extensive, balanced rolling stock fleet, which enables the Group to cater to the high-volume transportation requirements of key industrial customers, service a number of industries and react rapidly to changing sector demand and the changing economic environment; (b) utilisation of advanced destination management and route optimisation, which reduces empty runs of rolling stock and maximises the efficient commercial utilisation of the Group's rolling stock; and (c) a strong customer focus and sophisticated logistics know-how, which enables the Group to provide complex rail transportation and logistics solutions tailored to customers' needs.

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 revenue generating cargoes as ferrous metals, scrap metals and oil products and oil. In the nine months ended 30 September 2009, the Group transported approximately 14.9 per cent. of the total volume of ferrous metals, 8.1 per cent. of the total volume of scrap metals and 4.1 per cent. of the total volume of oil products and oil transported in Russia. See "Russian Rail Transportation Market—Trends in Key Freight Rail Transportation Sectors".

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements were prepared in accordance with 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. 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. See "Presentation of Financial and Other Information" for more information on the Group's use of the predecessor basis of accounting.

KEY FACTORS AFFECTING THE GROUP'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2009 AND 2008 AND THE YEARS ENDED 31 DECEMBER 2008 AND 2007

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 eight years until mid-2008 saw a period of economic growth and stability in Russia. During this period, the Russian economy experienced strong growth in its gross domestic product, which contributed to the demand in the freight rail transportation market, particularly in the ferrous metals, scrap metal and iron ore; construction; oil products and oil; and coal cargo segments. The Russian economy was adversely affected by the global financial turmoil beginning in the second half of 2008. However, during the recent economic downturn, oil products and oil demand have remained relatively stable.

The Group believes that the growth in the freight rail transportation sector prior to mid-2008 contributed to the growth in demand for the Group's services, positively affecting its pricing, volumes, revenue and operating profit. Specifically, the increased domestic demand for, and production of, ferrous metals in Russia and increased demand for freight rail 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 in 2007 and the first half of 2008. See "—Changes in the Group's core business—Changes in the Group's route network, logistical patterns and client base" below. As Russia's economy recovers from the economic downturn, its revival is expected to be driven by recovery in its key commodities industries, which in turn are expected to generate recovery in demand for freight rail transportation services. See "Russian Rail Transportation Market—Macroeconomic Overview".

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

A key factor affecting the Group's financial results is 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 directly or through its subsidiaries. Tariffs charged by Russian Railways are fixed by regulation, with revision to take account of inflation and other factors taking place generally every year. 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, which constitute the Group's most significant cost item and are borne by the Group when incurred in relation to empty runs and for loaded trips under certain customer contracts. Also, for most cargo segments 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 in Russia, Kazakhstan and Ukraine" and "Business—Pricing" and "Regulation of Railway Transportation in Russia". Freight One, a subsidiary of Russian Railways, as the leading player operating on the same basis as privately held freight rail operators with unregulated railcar charges, also influences pricing in certain sectors.

Russian Railways tariff increases

In the majority of the years between 2003 and 2008, Russian Railways' regulated tariff grew faster than the Russian consumer price index (***CPI***). This growth, together with favourable economic and market conditions, allowed the Group to increase its rail transportation service prices, which positively affected the Group's revenue in this period. In 2008 the Group's average price per trip increased by 32.3 per cent. to USD 816.0 compared to USD 616.8 in 2007. In addition, increases in infrastructure and locomotive tariffs charged by Russian Railways put upward pressure on the Group's Empty Run Costs, but through effective route optimisation the Group maintained this cost item at a relatively stable level.

As the result of the economic downturn, and its impact on certain sectors of the Russian economy, Russian Railways tariffs increased at a lower rate than expected in 2009, with a 5 per cent. increase from 10 January 2009 and an additional 5.7 per cent. increase from 1 July 2009. The challenging market environment made it difficult for the Group to increase its tariffs in line with Russian Railways during the six months ended 30 June 2009. The Group's average price per trip in the six months ended 30 June 2009 remained relatively flat in Rouble terms, but in US Dollar terms it decreased by 27.3 per cent., to USD 590.2, compared to the same period in 2008, primarily driven by significant depreciation of the Rouble against the US Dollar.

Service offerings and types of contracts

Over the period under review, the Group derived revenue from three principal service offerings, freight rail transportation, railcar leasing and ancillary services, including freight forwarding, logistics and tracking services.

Freight rail transportation

Freight rail transportation is the Group's core service offering, accounting for 82.8 per cent. of the Group's Adjusted Revenue in the six months ended 30 June 2009. Globaltrans operates on Russia's partly liberalised railway transportation market. As an owner of rolling stock it sells freight transportation services to its clients at unregulated prices. When providing freight rail transportation services, Globaltrans contracts locomotive traction and infrastructure usage from Russian Railways.

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 three types of contracts: (a) a "lump sum" contract pursuant to which the customer is charged a single price for the Group's services, and the infrastructure and locomotive tariffs payable to Russian Railways are borne by the Group, and the customer has no interaction with Russian Railways; (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; and (c) another "railcar charge only" contract pursuant to which the Group pays the infrastructure and locomotive tariffs to Russian Railways and recharges the amount to the customer as a reimbursement. As a result, the Group's revenue, cost of sales and gross margins, as reported under EU IFRS 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, while an increase in the proportion of "lump sum" contracts is likely to increase the Group's revenue, it will also increase the cost of sales, because the relevant infrastructure and locomotive tariffs will be borne by the Group; conversely the infrastructure and locomotive tariffs associated with "railcar charge only" contracts are not reflected in the Group's accounts. Due to these factors, and in order to assist investors in understanding the underlying trends in its core freight rail transportation business, the Group has elected to present Net Revenue from Operation of Rolling Stock for its freight rail transportation business. Net Revenue from Operation of Rolling Stock is defined as revenue from railway transportation—operators services less infrastructure and locomotive tariffs: loaded trips (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods). "Infrastructure and locomotive tariffs: loaded trips" are in principle a "pass through" for the Group. As Intopex does not engage in operator services, and Spacecom discontinued operator services prior to its transfer to the Group and had minimal revenue from these services, Net Revenue from Operation of Rolling Stock does not take into account the impact of the consolidation of Spacecom and Intopex.

Railcar leasing

Railcar leasing is the second major service offered by the Group, accounting for 17.2 per cent. of the Group's Adjusted Revenue in the six months ended 30 June 2009. In 2008 the Group significantly expanded its leasing business increasing the number of rolling stock leased-out to 5,972 units (or approximately 22 per cent. of the Group's total fleet) at the end of 2008, from 1,474 at the end of 2007. The significant increase in number of rolling stock leased-out came from the acquisition of controlling stakes in the leasing companies, Spacecom and Intopex, the combined fleet of which amounted to 4,152 rail tank cars and 8 locomotives along with 128 rail tank cars leased under operating leases as at the end of 2008.

The Russian government does not regulate the leasing of rolling stock, so all prices are based on market supply and demand. The Group's leased-out fleet is comprised primarily of rail tank cars. Volumes of oil products and oil transported in Russia and Kazakhstan are characterised by a high degree of stability, reflecting low elasticity of supply and demand for these cargoes. The overall rail tank car fleet is also stable. As a result of these factors, pricing for leasing services is characterised by low volatility. See "Business—Services—Railcar leasing".

Ancillary services

Ancillary services offered by the Group include freight forwarding and other services. The Group also has engaged to a limited extent in purchasing and reselling rolling stock in excess of its needs, taking advantage of its strong purchasing power with rolling stock manufacturers. In the future, the Group does not expect to engage in any significant resale of rolling stock on an ongoing basis, although it may consider engaging in such activity on an opportunistic basis from time to time. See "—Resales of rolling stock".

Changes in the Group's core business

Changes in the Group's route network, logistical patterns and client base

Favourable economic and market conditions along with increased domestic demand for ferrous metals products prior to 2008 and the Group's efforts to build 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. The Group was able to take advantage of its recent increase in rolling stock operated, which 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.

In addition, in recent years, taking advantage of its large fleet of general purpose gondola (open top) cars, the Group was able to attract a wide range of corporate customers, including small and medium-sized enterprises. This development of its customer base allowed the Group to diversify its routes and expand into new cargo types, such as construction materials, thus providing opportunities to maximise the Group's destination management and route optimisation processes and reduce empty runs of rolling stock on return journeys as well as enabling the Group to benefit from economic development in many Russian regions. See "Business—Strengths—Strong customer base and customer driven relationships".

Continuing the trend from previous years, the Group's use of its expanded customer base helped it to improve its operational efficiency and further decrease its Empty Run ratio for gondola (open top) cars in the six months ended 30 June 2008, but in late 2008 and in the first half of 2009, the Group's operational efficiency was negatively affected by difficult market conditions. See "—Mix of cargo classes" and "—Empty Run ratio of gondola (open top) cars".

Expansion of fleet

The Group significantly expanded its fleet of rolling stock in recent years, focussing on gondola (open top) cars and rail tank cars. This fleet expansion has supported the overall increase in the Group's business and growth in its Net Revenue from Operation of Rolling Stock and revenue from operating leasing of rolling stock. In 2008 Globaltrans significantly increased its fleet, adding 6,203 railcars to its owned rolling stock fleet, of which 2,043 railcars were acquired from Russian and Ukrainian manufacturers, and 4,152 rail tank cars together with 8 locomotives were added through the acquisition of stakes in Spacecom and Intopex. Since 31 December 2008, as a result of the economic slowdown, the Group suspended its capital expenditure programme. The Group's total fleet owned and leased under finance and operating leases as at 30 June 2009 remained relatively constant at 26,347 units of rolling stock (a decrease by 620 units) compared to 31 December 2008. The Group believes that attractive prices of new railcars along with the recovery in demand for railway transportation services already emerging in 2009 have once again created a favourable investment environment, and the Group has begun acquiring new rolling stock. The proposed Contribution will also result in the addition of more railcars to the Group. See "—Liquidity and Capital Resources—Capital expenditures".

Mix of cargo classes

The existing pricing conditions in the Russian freight rail transportation market reflect different regulated tariff rates for three main cargo classes, with Class 3 cargo (including ferrous metals and scrap metal) attracting the highest tariff and Class 1 cargo (including iron ore and coal) the lowest. In recent years, the Group has focussed its operations on Class 3 cargoes and Class 2 cargoes (such as oil products and oil) because the Group believes it can achieve higher margins on such cargoes. Additionally, in respect of metallurgical cargoes the logistical patterns of key metallurgical clients enable the Group to optimise effectively its transportation routes thus increasing profitability of loaded trips. The share of Class 3 and Class 2 cargoes in the Group's transportation volumes for the year ended 31 December 2008 totalled 39 per cent. and 25 per cent., respectively compared to 34 per cent. and 28 per cent. in the year ended 31 December 2007. However, since the beginning of the economic downturn in 2008, the Group has increased its transportation volumes of Class 1 cargoes (mainly coal) in order to sustain transportation volumes. As a result, in the six months ended 30 June 2009 the share of transportation volumes of Class 1 cargoes increased to 38 per cent. compared to 34 per cent. in the same period of 2008.

In the six months ended 30 June 2009 the Group was able to capitalise on the flexibility of its fleet to preserve its freight rail turnover by migrating from distressed cargoes to more stable cargoes. The key performing cargoes in the first half of 2009 that contributed to the relative stability of the Group's freight rail turnover were ferrous metals and coal. As a result, the Group outperformed the market during the recent economic downturn with its freight rail turnover only decreasing by 4.4 per cent. and its transportation volumes decreasing by 5.2 per cent. in the six months ended 30 June 2009, compared to the same period in 2008, while at the same time freight rail turnover and transportation volumes in the overall Russian freight rail transportation market decreased by 21.7 per cent. and 23.1 per cent., respectively.

Empty Run ratio of gondola (open top) cars

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. This matching thereby reduces costly empty runs of the Group's gondola (open top) cars on return journeys and increases the proportion of time for which cars are generating revenue. The ability of the Group to find customers with cargo shipments originating in or nearby the relevant destinations, thus enhancing the commercial utilisation of the Group's rolling stock, as well as avoiding costly empty runs, is a major driver of the Group's revenues and profitability, in particular in relation to the Group's gondola fleet (opportunities to find return cargoes for rail tank cars and other specialised types of cars being limited by the absence of potential return cargoes in almost all cases). While the Group's focus is on transporting higher revenue generating cargoes, in order to optimise the Empty Run ratio for gondola (open top) cars the Group sometimes carries low priced cargoes.

The Group's Empty Run ratio for gondola (open top) cars improved from 21 per cent. in the year ended 31 December 2007 to 19 per cent. in the six months ended 30 June 2008. In late 2008 and in 2009, the Group's operational efficiency was negatively affected by difficult market conditions. Some of the Group's corporate customers, including small and medium-sized enterprises, were hard hit by the economic downturn, resulting in decreases in the volume of freight shipped by them and, in certain circumstances, an inability to make the advanced payments, which are frequently a feature of the Group's payment terms. In addition, the Russian freight rail transportation industry experienced greater overall decreases in demand on domestic routes than on export routes, which resulted from sharp declines in construction activity and decreases in the metallurgical industries in the Russian Federation and abroad. As a result of the negative economic climate, the Group had limited capacity in late 2008 and early 2009 to find cargoes that could fill returning empty railcars, and consequently the Group's Empty Run ratio for gondola (open top) cars increased to 54 per cent. in the six months ended 30 June 2009.

See also "—Changes in the Group's route network, logistical patterns and client base".

Increased exposure to oil products and oil transportation market and leasing business

With the acquisition of Spacecom and Intopex in December 2008, the Group increased its presence in the oil products and oil transportation market as well as the railcar leasing business. Transportation of oil products and oil is one of the most resilient segments of the freight rail transportation business, which experienced relatively stable volumes during the recent economic downturn. The railcar leasing business offers stable, mostly US Dollar-denominated cash flows, and thus improves the overall business portfolio of the Group. See "Business—Services—Railcar leasing" and "Russian Rail Transportation Market". If the Contribution takes place, the Group will gain further exposure to the oil products and oil industry. See "Business and Financial Information of BTS", and within that section in particular see "—Russian Oil Product and Oil Rail Transportation Market".

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. Items included in the 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 functional currency of the Company and its Russian subsidiaries is the Rouble. The results and financial position of each of the Group's entities that have a functional currency different from the presentation currency are translated into US Dollars using the official exchange rates of the central bank of the country of registration of each entity, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", whereby assets and liabilities are translated at the closing rate prevailing at the date of the balance sheet, income and expense items are translated into US Dollars at the average annual exchange rate for all periods presented which approximates the exchange rate existing at the date of the transaction except for the year 2008 where, due to high fluctuations of the US Dollar/Rouble exchange rate during the fourth quarter, income and expenses items are translated at the average exchange rates for January to August and average monthly rates for the remaining months of 2008, and share capital, share premium and other reserves are translated using the historic rates. 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 six months ended 30 June 2009 was approximately 39.1 per cent. higher than in the same period of 2008. As a result of the magnitude of this increase, the US Dollar/Rouble exchange rate was one of the most significant drivers of changes to income statement line items as compared to the six months ended 30 June 2008. The average US Dollar/Rouble exchange rate for the year ended 31 December 2008 decreased by approximately 2.7 per cent. as compared to the average for the year ended 31 December 2007. Because the Company reports its Consolidated Financial Statements in US Dollars and most of its revenues are denominated in Roubles, 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's entities in their respective functional currencies at the exchange rates to 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 were US Dollar-denominated. During the six months ended 30 June 2009 and the year ended 31 December 2008 because of significant appreciation of US Dollar against the Rouble, the Group recognised substantial foreign exchange losses in connection with this US Dollar-denominated debt financing of its Russian operating companies, resulting in a significant increase in its finance costs compared with the years ended 31 December 2007 and 2006, when the Group recognised significant foreign exchange gains due to appreciation of the Rouble.

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 Dollar-denominated non-current borrowings will continue to be more commercially attractive than those for Rouble-denominated non-current borrowings, and long-term funding is generally not available in Roubles. The Group does not hedge its exposure to foreign currency fluctuations. Accordingly, any future appreciation of the US Dollar against the Rouble could negatively affect 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

In the years ended 31 December 2008, 2007 and 2006, the Group purchased rolling stock for resale to unrelated third parties and to certain related 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 year ended 31 December 2006. In the future, the Group does not expect to engage in 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.

Common Control Transactions

In December 2008, the Group acquired from TIHL a 61 per cent. shareholding in Spacecom for a total consideration of USD 64.0 million and a 65 per cent. shareholding in Intopex for a total consideration of USD 15.0 million. Both companies are engaged in operating lease of rolling stock, and Spacecom is also engaged in railway freight forwarding. The combined price of these transactions amounted to USD 79.0 million. This amount was payable in a series of instalments, USD 7.0 million of which remains to be paid in 2010. In accordance with the accounting policies of the Group, the liability (deferred payment) for the consideration payable for the transfer of Spacecom was recognised at the fair value of USD 61.7 million and for the transfer of Intopex at the fair value of USD 14.4 million by discounting future payments to be made using the weighted average cost of capital.

In May 2007 the Company acquired from its shareholders their shareholding in Sevtekhnotrans, a railway transportation company. A portion of the share capital representing 28.75 per cent. of Sevtekhnotrans was acquired for a total consideration of USD 40.3 million. The remaining share capital representing 71.25 per cent. of Sevtekhnotrans with a value of USD 99.8 million was transferred at no consideration as a capital contribution.

RECENT DEVELOPMENTS

Since 30 June 2009, 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.

Supported by improvement in the economic environment in Russia and capitalising on its competitive strengths, the Group increased its freight rail turnover by 9.8 per cent. in the third quarter of 2009 compared to the third quarter of 2008. As a result of the growth in the third quarter of 2009, the freight rail turnover of the Group in the nine months ended 30 September 2009 came in line with the same period in 2008, remaining at the same level, 47.6 billion tonnes-km. According to Rosstat, in the nine months ended 30 September 2009 overall Russian freight rail turnover decreased by 16.9 per cent. compared to the same period in 2008. Ferrous metals, iron ore and oil products and oil were the key contributors that drove the increase in the Group's freight rail turnover in the third quarter of 2009 increasing 27.5 per cent., 148.3 per cent. and 4.0 per cent., respectively, as compared to the third quarter of 2008.

Average price per trip increased by 2.3 per cent. in US Dollar terms to USD 603.5 in the nine months ended 30 September 2009 compared to the six months ended 30 June 2009 supported by appreciation of the Rouble against the US Dollar in the third quarter of 2009, while in Rouble terms the average price per trip remained relatively flat. In the third quarter of 2009 the average price per trip amounted to USD 628.9. Net cash from operating activities in the nine months ended 30 September 2009 amounted to USD 122,691 thousand, as compared to USD 124,922 thousand in the same period in 2008.

Average number of loaded trips per railcar decreased by 6.2 per cent. to 19.2 in the nine months ended 30 September 2009 compared to 20.5 in the same period of the previous year. This decrease was primarily driven by an increase in average distance of loaded trip by 6.0 per cent. to 1,969.1 km in the nine months ended 30 September 2009 compared to the same period in 2008. The Group's average rolling stock operated remained relatively constant in the nine months ended 30 September 2009 compared to the six months ended 30 June 2009 and nine months ended 30 September 2008.

Driven by the factors discussed above and the depreciation of the Rouble against the US Dollar, Net Revenue from Operation of Rolling Stock (the key component of the Group's revenue) decreased by USD 106,175 thousand, or by 31.2 per cent., to USD 234,586 thousand in the nine months ended 30 September 2009 compared to the same period in 2008, while in Rouble terms it decreased by 6.7 per cent.

Revenue from operating leasing of rolling stock decreased by USD 2,530 thousand, or 5.2 per cent., to USD 46,284 thousand in the nine months ended 30 September 2009 compared to the same period in 2008. This decrease was primarily due to a decrease of 13.6 per cent. in the number of units of rolling stock leased out at 30 September 2009 compared to 30 September 2008.

In the third quarter of 2009 the Group's Empty Run ratio for gondola (open top) cars improved to 40 per cent. which resulted in Empty Run ratio for gondola (open top) cars in the nine months ended 30 September 2009 of 49 per cent, compared to 54 per cent. in the six months ended 30 June 2009, while in the nine months ended 30 September 2008 it was 24 per cent. The improvement in Empty Run ratio for gondola (open top) cars in the third quarter of 2009 was driven by an increase in the freight rail turnover from transportation of iron ore, scrap metal and other cargoes during the period. The Group's Empty Run Costs increased by USD 6,241 thousand or by 10.1 per cent. amounting to USD 68,053 thousand in the nine months ended 30 September 2009 compared to the same period in 2008.

As a result of the factors discussed above the profitability of the Group's business improved. The Group's Adjusted EBITDA margin (calculated as adjusted EBITDA divided by adjusted revenue) was 43 per cent. in the nine months ended 30 September 2009, compared to 41 per cent. in the six months ended 30 June

2009. Thus, the Group's Adjusted EBITDA for the nine months ended 30 September 2009 decreased by USD 82,614 thousand, or 40.6 per cent., to USD 120,912 thousand, compared to the same period of 2008. In Rouble terms, the decrease was 19 per cent.

The Group's net debt as at 30 September 2009 amounted to USD 320,786 thousand, a decrease of USD 9,927 thousand compared to 30 June 2009. The share of Rouble-denominated debt increased to 30 per cent. as at 30 September 2009, compared to 24 per cent. as at 30 June 2009. Total debt amounted to USD 410,321 thousand, an increase of USD 15,392 thousand or 3.9 per cent. as at 30 September 2009 compared to USD 394,929 thousand as at 30 June 2009. This increase was due to the Group's obtaining a USD 25,000 thousand loan in order to fund early payment of a portion of the outstanding consideration for the acquisition of the Estonian Subsidiaries. The Group's weighted average interest rate as at 30 September 2009 amounted to 9.97 per cent. compared to 10.41 per cent. as at 30 June 2009.

Unaudited Consolidated Condensed Capsule Financial Information and Other Information for the nine-month periods ended 30 September 2009 and 2008

Consolidated Condensed Capsule Income Statement Data

	Nine months ended 30 September	
	2009	**2008**
	(unaudited) (USD in thousands)	
Revenue	330,351	522,979
Cost of sales	(208,958)	(314,213)
Gross profit	**121,393**	**208,766**
Selling and marketing costs	(1,091)	(1,711)
Administrative expenses	(30,241)	(39,244)
Other gains—net	242	3,254
Operating profit	**90,303**	**171,065**
Finance income	1,907	2,770
Finance costs	(51,037)	(44,235)
Finance costs—net	**(49,130)**	**(41,465)**
Share of profit/(loss) of associates	462	519
Profit before income tax	**41,635**	**130,119**
Income tax expense	(4,418)	(28,676)
Profit for the period	**37,217**	**101,443**
Attributable to:		
Equity holders of the Company	29,106	96,694
Minority interest	8,111	4,749
	37,217	**101,443**

Consolidated Condensed Capsule Balance Sheet Data

	As at 30 September 2009	As at 31 December 2008
	(unaudited)	(audited)
	(USD in thousands)	
Assets		
Non-current assets	733,889	770,864
Current assets	195,225	225,196
Non-current assets held for sale	840	—
Total assets	**929,954**	**996,060**
Equity and liabilities		
Capital and reserves	419,753	395,117
Minority interest	36,018	26,325
Total equity	**455,771**	**421,442**
Non-current liabilities	286,172	361,518
Current liabilities	188,011	213,100
Total liabilities	**474,183**	**574,618**
Total equity and liabilities	**929,954**	**996,060**

Additional (Non-GAAP) Financial Information

	Nine months ended 30 September	
	2009	2008
	(USD in thousands)	
Adjusted Revenue(1)(6)	280,870	389,436
Net Revenue from Operation of Rolling Stock(2)(6)	234,586	340,761
EBITDA(3)(6)	105,650	202,160
Adjusted EBITDA(4)(6)	120,912	203,526
Empty Run Costs(5)(6)	68,053	61,812

Operating Information

	Nine months ended 30 September(7)	
	2009	2008
Freight rail turnover (billion tonnes-km)(8)	47.6	47.6
Transportation volume (million tonnes)	24.4	25.7
Average price per trip (USD)(9)	603.5	829.7
Empty Run ratio for gondola (open top) cars(10)	49%	24%
Average number of loaded trips per railcar(11)	19.2	20.5
Average distance of loaded trips (km)	1,969.1	1,857.3
Average rolling stock operated(12)	20,224	20,048
Total rolling stock owned and leased under finance and operating leases (at period end)	26,060	26,645

(1) Adjusted Revenue is calculated as "total revenue—operator's services" plus "total revenue—operating lease" less "infrastructure and locomotive tariffs: loaded trips".

(2) Net Revenue from Operation of Rolling Stock is defined as "revenue from railway transportation—operator's services" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods).

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

(4) Adjusted EBITDA represents EBITDA less net foreign exchange gains/(losses) on financing activities, share of profit/(loss) of associates and other gains/(losses)—net. Other gains/(losses)—net include gains from the sale of subsidiaries, recognised deferred gains and other gains and losses.

(5) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips and services provided by other transportation organisations" component of cost of sales reported under EU IFRS. Empty Run Costs excludes the impact of the transfer and consolidation of Spacecom and Intopex for all periods.

(6) Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA and Empty Run Costs are non-GAAP measures presented as supplemental measures of the Group's operating performance. 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 results as reported under EU IFRS. See "Presentation of Financial and Other Information". Reconciliations of Adjusted Revenue to revenue, Net Revenue from Operation of Rolling Stock to revenue and EBITDA and Adjusted EBITDA to profit for the period are set out below.

Reconciliation of Adjusted Revenue to Revenue

	Nine months ended 30 September	
	2009	**2008**
	(USD in thousands)	
Revenue from railway transportation—operators services	283,035	460,164
Operating leasing of rolling stock (rail tank cars and gondola (open top) cars)	46,284	48,814
Minus		
Infrastructure and locomotive tariff: loaded trips	(48,449)	(119,542)
Adjusted Revenue	**280,870**	**389,436**

Reconciliation of Net Revenue from Operation of Rolling Stock to Railway Transportation—Operators Services

	Nine months ended 30 September	
	2009	**2008**
	(USD in thousands)	
Revenue from railway transportation—operators services	283,035	460,164
Minus		
Infrastructure and locomotive tariff: loaded trips	(48,449)	(119,542)
Adjustment for Estonian Subsidiaries*	—	139
Net Revenue from Operation of Rolling Stock	**234,586**	**340,761**

* This adjustment reflects the impact of the consolidation of the Estonian subsidiaries and is associated with freight rail transportation services previously rendered by Spacecom and discontinued in the first half of 2008.

Reconciliation of EBITDA and Adjusted EBITDA to Profit for the Period

	Nine months ended 30 September	
	2009	**2008**
	(USD in thousands)	
Profit for the period	**37,217**	**101,443**
Plus		
Income tax expense	4,418	28,676
Net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities)	33,164	36,326
Depreciation of property, plant and equipment	30,851	35,715
EBITDA	**105,650**	**202,160**
Minus (Plus)		
Net foreign exchange transaction gains/(losses) on financing activities	(15,966)	(5,139)
Other gains—net	242	3,254
Share of profit of associates	462	519
Adjusted EBITDA	**120,912**	**203,526**

(7) Represents nine months ended 30 September 2008 and 2009, except for total rolling stock owned or leased under finance lease (at period end), which is as at 30 September 2008 and 2009, respectively.

(8) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

(9) Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(10) Empty Run ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. 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).

(11) Average number of loaded trips per railcar is calculated as total number of loaded trips in the relevant period divided by average rolling stock operated.

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

Developments since 30 September 2009

Since 30 September 2009, the following developments have taken place:

- In line with its growth strategy, and in addition to the proposed Contribution, in October and November 2009, the Group entered into agreements to purchase 2,000 new gondola (open top) cars from vendors including Russian producers, such as Uralwagonzavod, Armavirsky and Roslavlsky. The Group has prepaid a substantial portion of the purchase price for such railcars and has already received delivery of more than 330 of these railcars, with delivery of all 2,000 railcars expected by the end of January 2010.
- In November 2009, the Group concluded a credit agreement with Closed Joint Stock Company UniCredit Bank and received RUB 225 million of the total RUB 750 million available pursuant to such agreement.
- In November 2009, the Group concluded a finance lease agreement with SIA UniCredit Leasing Estonian Branch for a financial lease of rail tank cars for a total amount of USD 7 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 Net Revenue from Operation of Rolling Stock

To date, the Group has derived its revenue from freight rail transportation—operators services provided by the Group as well as from leasing of rolling stock, freight forwarding and resale of rolling stock and other revenue. For the purpose of the further discussion and analysis of revenue, management believes that Net Revenue from Operation of Rolling Stock as an additional non-GAAP financial measure characterising the net revenue generated from the operation of rolling stock provides useful insight. Net Revenue from Operation of Rolling Stock is defined as revenue from railway transportation—operators services less infrastructure and locomotive tariffs: loaded trips (excluding the transfer and consolidation of Spacecom and Intopex for all periods). Infrastructure and locomotive tariffs: loaded trips are in principle a "pass through" for the Group. As Intopex does not engage in operator services, and Spacecom discontinued operator services prior to transfer to the Group and had minimal revenue from these services, Net Revenue from Operation of Rolling Stock does not take into account the impact of the consolidation of Spacecom and Intopex.

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 of Operations for the Six-Month Periods ended 30 June 2009 and 2008 and the Years ended 31 December 2008 and 2007—Service offerings and types of contracts". Infrastructure and locomotive tariffs for "Empty run trips and services provided by other transportation organisations" includes the costs payable to Russian Railways for forwarding empty railcars. 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.

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, other losses, recognised deferred gains and net foreign exchange (losses)/gains on non-financing activities.

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/(loss) of associates

Share of profit of associates is the change in share of profit/(loss) after tax of associates of the Group.

Profit before income tax

Profit before income tax is operating profit less finance costs—net, plus share of profit/(loss) of associates.

Income tax expense

For the annual periods presented 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. For the six-month periods ended 30 June 2009 and 2008 income tax expense is recognised in accordance with IAS 34 "Interim Financial Reporting", based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

The Company is based and organised in Cyprus, while its subsidiaries are based and organised in Russia, Estonia and Ukraine. The Company is subject to corporation tax on taxable profits at the rate of 10 per cent. Under certain conditions interest may be subject to defence contribution at the rate of 10 per cent. In such cases 50 per cent. of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15 per cent. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15 per cent.

During 2007 and 2008 the Russian subsidiaries were subject to a tax rate of 24 per cent. An income tax rate of 20 per cent. has been enacted in November 2008 which became effective starting from 1 January 2009.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5 per cent. on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

For subsidiaries in Estonia the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 21/79 (until 31 December 2007: 22/78) of net dividend paid. Therefore, the applicable tax rate for Estonian subsidiaries is zero per cent.

For the subsidiary in Ukraine the annual profit is taxed at a tax rate 25 per cent.

For more information regarding the Group's income taxes, see "Risk Factors—Risks Relating to Taxation" and the Consolidated Financial Statements.

Profit for the period

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

Results of Operations for the Six-Month Periods Ended 30 June 2009 and 2008

The following table sets forth the principal components of the Group's consolidated income statement for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	2008
	(unaudited) (USD in thousands)	
Revenue	215,573	341,622
Cost of sales	(143,074)	(207,469)
Gross profit	**72,499**	**134,153**
Selling and marketing expenses	(695)	(1,178)
Administrative expenses	(18,202)	(26,480)
Other gains—net	474	2,256
Operating profit	**54,076**	**108,751**
Finance income	695	1,607
Finance costs	(45,197)	(8,763)
Finance costs—net	**(44,502)**	**(7,156)**
Share of profit of associates	331	546
Profit before income tax	**9,905**	**102,141**
Income tax income/(expense)	1,048	(24,160)
Profit for the period	**10,953**	**77,981**
Attributable to:		
Equity holders of the Company	6,370	72,292
Minority interest	4,583	5,689
	10,953	**77,981**

See also "—Key Factors Affecting the Group's Financial Condition and Results of Operations for the Six-Month Periods ended 30 June 2009 and 2008 and the Years ended 31 December 2008 and 2007."

Revenue and Net Revenue from Operation of Rolling Stock

The following table sets forth revenue, broken down by area of revenue-generating activity, and Net Revenue from Operation of Rolling Stock of the Group for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	**2008**
	(unaudited) (USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	61,019	129,420
Railway transportation—operators services (tariff borne by the client)	122,858	169,119
Railway transportation—freight forwarding	168	2,088
Operating leasing of rolling stock	31,015	30,546
Sale of wagons and locomotives	181	10,099
Other	332	350
Revenue	**215,573**	**341,622**
Net Revenue from Operation of Rolling Stock[(1)]	**149,207**	**219,326**

(1) For a reconciliation of Net Revenue from Operation of Rolling Stock to Railway transportation—operators services, see "Selected Consolidated Financial and Operating Information".

Revenue decreased by USD 126,049 thousand, or 36.9 per cent., from USD 341,622 thousand in the six months ended 30 June 2008 to USD 215,573 thousand in the six months ended 30 June 2009. The decrease in the Group's Revenue was driven by several key factors, but primarily by depreciation of the Rouble against the US Dollar in this period by 39.1 per cent. as well as worsening market conditions.

The decrease in the Group's Revenue was due to a decrease of 38.4 per cent. in Railway transportation—operators services from USD 298,539 thousand in the six months ended 30 June 2008 to USD 183,877 thousand in the six months ended 30 June 2009, combined with a 55.4 per cent. decrease in Infrastructure and locomotive tariffs—loaded trips (which is included in equal amounts both in the Group's revenue and cost of sales) from USD 77,715 thousand to USD 34,670 thousand as clients increasingly opted to pay infrastructure and locomotive charges directly to Russian Railways (reducing the share of "lump sum" (tariff borne by the Group) contracts).

Net Revenue from Operation of Rolling Stock, the largest component of Revenue, decreased by USD 70,119 thousand, or 32.0 per cent., from USD 219,326 thousand in the six months ended 30 June 2008 to USD 149,207 thousand in the six months ended 30 June 2009. In Rouble terms, Net Revenue from Operation of Rolling Stock only decreased by 5.4 per cent. This decrease reflects a decline in the average price per trip by 27.3 per cent. in US Dollar terms to USD 590.2 compared to the six months ended 30 June 2008 (which in Rouble terms was actually an increase by 1.1 per cent.). During the period the Group was operating in a depressed pricing environment, especially in the first quarter of 2009, with slightly positive pricing dynamics evidenced since April 2009, and experienced a change in cargo mix with an increased share of ferrous metals (53.6 per cent. compared to 40.9 per cent. in the six months ended 30 June 2008) and coal (12.2 per cent. compared to 8.1 per cent. in the period ended 30 June 2008). Another factor impacting Net Revenue from Operation of Rolling Stock during this period was a 7.1 per cent. decline in the average number of loaded trips per railcar to 12.5 trips in the six months ended 30 June 2009 compared to an average of 13.5 trips in the six months 30 June 2008 due to difficult market conditions.

In addition, the Group's Revenue decreased partially as a result of Exceptional Rolling Stock Sales, which contributed USD 10,099 thousand to Revenue in the six months ended 30 June 2008, but had a minimal impact on Revenue during the six months ended 30 June 2009 because no attractive opportunities arose.

These decreases were partially offset by a 1.5 per cent. increase in revenue from operating leasing of rolling stock, the second largest component of Revenue, from USD 30,546 thousand in the six months ended 30 June 2008 to USD 31,015 thousand compared to the same period the previous year, as driven primarily by revenue generated by the Estonian subsidiaries which benefited from sustained demand for transportation of oil products and oil and revenues denominated mostly in US Dollars.

Cost of sales

The following table sets forth a breakdown of cost of sales for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	2008
	(unaudited) (USD in thousands)	
Infrastructure and locomotive tariffs:		
Loaded trips	34,670	77,715
Empty Run trips and services provided by other transportation organisations	52,111	46,846
Total infrastructure and locomotive tariffs	**86,781**	**124,561**
Depreciation of property, plant and equipment	20,654	22,768
Impairment charge for property, plant and equipment	346	—
Operating lease rentals—rolling stock	9,095	16,587
Repairs and maintenance	21,340	28,068
Employee benefit expense	3,171	5,108
Loss/(gain) on sale of property, plant and equipment	196	(2,812)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	178	9,312
Other expenses	1,313	3,877
Total	**143,074**	**207,469**

Cost of sales decreased by USD 64,395 thousand, or 31.0 per cent., from USD 207,469 thousand in the six months ended 30 June 2008 to USD 143,074 thousand in the six months ended 30 June 2009. This decrease was primarily due to depreciation of the Rouble against the US Dollar, but also reflected decreases in certain cost items. In particular, infrastructure and locomotive tariffs: loaded trips decreased by 55.4 per cent. from USD 77,715 thousand in the six months ended 30 June 2008 to USD 34,670 thousand in the six months ended 30 June 2009 as clients increasingly opted to pay infrastructure and locomotive charges directly to Russian Railways. During this same period, the cost of railcars and locomotives sold in trading transactions (not part of property, plant and equipment) decreased by USD 9,134 thousand, or 98.1 per cent. because only minimal Exceptional Rolling Stock Sales took place in the six months ended 30 June 2009.

Other factors which contributed to the decrease in Cost of sales include a decrease in operating lease rentals—rolling stock by 45.2 per cent. to USD 9,095 thousand in the six months ended 30 June 2009 from USD 16,587 thousand in the six months ended 30 June 2008 primarily due to a decrease in the number of railcars leased by the Group, and a decrease in repair and maintenance costs by 24.0 per cent. to USD 21,340 thousand. In Rouble terms repair and maintenance costs rose, driven by an increase in the number of scheduled repairs as a result of changes in the age structure of the fleet. See "Business—Equipment—Maintenance and Repair".

These decreases were offset, in part, by an increase in Infrastructure and locomotive tariffs: Empty run trips and services provided by other transportation organisations by 11.2 per cent. to USD 52,111 thousand, reflecting an increase in Empty Run Costs by 16.1 per cent. to USD 45,604 thousand in the six months ended 30 June 2009 compared to USD 39,267 thousand in the six months ended 30 June 2008. This cost increase was primarily due to growth in the Empty Run ratio for gondola (open top) cars from 19 per cent. in the six months ended 30 June 2008 to 54 per cent. in the six months ended 30 June 2009 as a result of the difficult market conditions, which led to reduced capacity utilisation of steel mills resulting in a sharp decrease in inbound traffic (especially the shipment of scrap metals and iron ore), decreased imports to Russia making it more difficult to find return cargo from ports, a decline in construction activity and the decrease in business activity of distressed customers, including small and medium-sized enterprises, who became unable to make the advanced payments, which are frequently a feature of the Group's payment terms, to ship cargoes that could have filled returning empty railcars. Employee benefit expense decreased by USD 1,937 thousand in the six months ended 30 June 2009, from USD 5,108 thousand in the six months ended 30 June 2008, driven mostly by depreciation of the Rouble against the US Dollar during the period and a decrease in the number of employees of

Spacecom resulting from the discontinuation of its freight rail transportation business in the first six months of 2008.

Gross profit

Due to the factors discussed above, gross profit decreased by USD 61,654 thousand, or 46.0 per cent., from USD 134,153 thousand in the six months ended 30 June 2008 to USD 72,499 thousand in the six months ended 30 June 2009.

Selling, marketing and administrative expenses

Selling, marketing and administrative expenses decreased by USD 8,761 thousand, or 31.7 per cent., to USD 18,897 thousand for the six months ended 30 June 2009 from USD 27,658 thousand for the six months ended 30 June 2008, reflecting significant depreciation of the Rouble against the US Dollar for the period, along with a sharp decrease in legal, consulting and other professional fees, which had included expenses associated with the listing and initial public offering of GDRs by Globaltrans (the ***IPO***) in the six months ended 30 June 2008. Employee benefit expense decreased by USD 2,194 thousand from USD 10,143 thousand in the six months ended 30 June 2008, driven mostly by the depreciation of the Rouble against the US Dollar during the reporting period.

Other gains—net

Other gains—net decreased by USD 1,782 thousand, from USD 2,256 thousand in the six months ended 30 June 2008 to USD 474 thousand in the six months ended 30 June 2009, reflecting a decrease in the amount of non-recurring transactions.

Operating profit

The Group's operating profit decreased by USD 54,675 thousand, or 50.3 per cent., from USD 108,751 thousand in the six months ended 30 June 2008 to USD 54,076 thousand in the six months ended 30 June 2009, as a result of the factors discussed above.

EBITDA and Adjusted EBITDA

EBITDA decreased by 65.4 per cent. to USD 52,317 thousand in the six months ended 30 June 2009 from USD 151,344 thousand in the six months ended 30 June 2008 due to the factors discussed above.

Adjusted EBITDA for the six months ended 30 June 2009 amounted to USD 74,570 thousand, demonstrating a decrease of 42.5 per cent. compared to the same period the previous year (a decrease of 20.0 per cent. in Rouble terms) as a result of the factors discussed above.

Finance income

Finance income decreased by USD 912 thousand or 56.8 per cent., from USD 1,607 thousand in the six months ended 30 June 2008 to USD 695 thousand in the six months ended 30 June 2009. This decrease was primarily due to a significant decrease in interest income on bank balances, which decreased from USD 749 thousand in the six months ended 30 June 2008 to USD 59 thousand in the six months ended 30 June 2009.

Finance costs

The following table sets forth a breakdown of finance costs for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	2008
	(unaudited) (USD in thousands)	
Interest expense:		
Bank borrowings	(8,603)	(8,570)
Finance leases	(11,972)	(14,898)
Loans from:		
Related parties	(540)	(3,843)
Third parties	(156)	(326)
Total interest expense	**(21,271)**	**(27,637)**
Net foreign exchange transaction gains/(losses) on financing activities	(23,058)	18,874
Other	(868)	—
Finance costs	**(45,197)**	**(8,763)**

Finance costs increased by USD 36,434 thousand in the six months ended 30 June 2009 compared with the six months ended 30 June 2008. The increase in finance costs was primarily due to net foreign exchange transaction losses on financing activities amounting to USD 23,058 thousand compared to net foreign exchange transaction gains of USD 18,874 thousand recorded in the first six months of 2008. As the greater part of the Group's debt and finance lease portfolio is denominated in US Dollars, foreign exchange transaction losses occurred as a result of the significant depreciation of the Rouble against the US Dollar during the reporting period.

Total interest expense decreased by USD 6,366 thousand or 23.0 per cent. to USD 21,271 thousand in the six months ended 30 June 2009 compared to the six months ended 30 June 2008, driven by a decreased loan and financial leasing portfolio.

Share of profit of associates

The share of profit of associates decreased to USD 331 thousand in the six months ended 30 June 2009 from USD 546 thousand in the six months ended 30 June 2008, reflecting the change in share of profit/(loss) after tax of Daugavpils Lokomtivju Remonta Rupnica, an associate of Spacecom.

Profit before income tax

Profit before income tax decreased by USD 92,236 thousand or 90.3 per cent., from USD 102,141 thousand in the six months ended 30 June 2008 to USD 9,905 thousand in the six months ended 30 June 2009. This decrease was primarily due to the significant depreciation of the Rouble against the US Dollar during the six months ended 30 June 2009 and associated substantial net foreign exchange transaction losses recorded in the six months ended 30 June 2009, as well as the many other factors discussed above.

Income tax income/(expense)

Income tax income/(expense) changed by USD 25,208 thousand from an expense of USD 24,160 thousand in the six months ended 30 June 2008 to income of USD 1,048 thousand in the six months ended 30 June 2009.

For the six months ended 30 June 2009 income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ended 31 December 2009 is 11.68 per cent. (for 2008 it was 18.75 per cent.). The decrease in the estimated effective tax rate is due to a planned increase in the proportion of profit before income tax contributed by the Estonian Subsidiaries (the profits of which are not taxed) while at the same time the planned profit of the Russian subsidiaries decreased, as well as a decrease in the Russian income tax rate from 24 per cent. to 20 per cent., effective 1 January 2009.

Results of Operations for the Years Ended 31 December 2008 and 2007

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	2007
	(audited)	(unaudited)
	(USD in thousands)	
Revenue	660,870	605,032
Cost of sales	(401,397)	(419,897)
Gross profit	**259,473**	**185,135**
Selling, and marketing costs	(2,179)	(1,374)
Administrative expenses	(52,735)	(45,003)
Other gains—net	3,209	6,277
Operating profit	**207,768**	**145,035**
Finance income	3,394	6,148
Finance costs	(99,777)	(29,950)
Finance costs—net	**(96,383)**	**(23,802)**
Share of profit/(loss) of associates	556	(658)
Profit before income tax	**111,941**	**120,575**
Income tax expense	(14,565)	(27,834)
Profit for the year	**97,376**	**92,741**
Attributable to:		
Equity holders of the Company	90,934	86,364
Minority interest	6,442	6,377
	97,376	**92,741**

See also "—Key Factors Affecting the Group's Financial Condition and Results of Operations for the Six-Month Periods ended 30 June 2009 and 2008 and the Years ended 31 December 2008 and 2007."

Revenue and Net Revenue from Operation of Rolling Stock

The following table sets forth revenue, broken down by area of revenue-generating activity of the Group for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	2007
	(audited)	(unaudited)
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	241,424	292,084
Railway transportation—operators services (tariff borne by the client)	337,436	252,788
Railway transportation—freight forwarding	5,412	3,788
Operating leasing of rolling stock (tank cars and open wagons)	55,020	45,314
Operating leasing of locomotives and hoppers	11,641	6,379
Sale of wagons and locomotives	9,726	465
Other	211	4,214
Revenue	**660,870**	**605,032**
Net Revenue from Operation of Rolling Stock	**433,933**	**352,792**

(1) For a reconciliation of Net Revenue from Operation of Rolling Stock to Railway transportation—operators services, see "Selected Consolidated Financial and Operating Information".

In 2008 the Group recorded Revenue of USD 660,870 thousand, an increase of USD 55,838 thousand, or 9.2 per cent., over USD 605,032 thousand in 2007. The Group's Net Revenue from Operation of Rolling Stock, the largest component of Revenue, increased by USD 81,141 thousand, or 23.0 per cent., to

USD 433,933 thousand in 2008 compared to USD 352,792 thousand for 2007. The increases in Revenue and Net Revenue from Operation of Rolling Stock primarily reflected increases in Railway transportation—operator services.

The increase in revenue from railway transportation—operators service was mostly driven by increasing revenue from railway transportation—operators service (tariff borne by the client) which rose by USD 84,648 thousand or 33.5 per cent. in 2008 compared to the previous year. At the same time, revenue from railway transportation—operators service (tariff borne by the Group) decreased by USD 50,660 thousand or 17.3 per cent. compared to the previous year. The relative increase in railway transportation—operators service (tariff borne by the client) was because clients increasingly preferred to pay infrastructure and locomotive charges directly to Russian Railways.

The increase in revenue from Net Revenue from Operation of Rolling Stock reflected a significant growth in Average Price per Trip, which rose by 32.3 per cent. to USD 816.0 in 2008, which was, in turn, driven by an approximately 22 per cent. increase in the time weighted average regulated tariff charged by Russian Railways in 2008 (which in certain aspects acts as a benchmark for private operators), and by the Group's continued focus on high revenue generating cargoes, which translated into a greater proportion attributable to revenue from transportation of higher priced Class 3 cargoes (which include ferrous metals and scrap metals). Net Revenue from Operation of Rolling Stock attributable to Class 3 cargoes increased from 41 per cent. in 2007 to 52 per cent. in 2008. The increase in railway transportation—operators service was also influenced by a 5.9 per cent. increase in the average distance of loaded trips travelled by the Group's rolling stock to 1,855.4 km in 2008 as compared to the previous year, as the result of the introduction of new sophisticated routes, especially in the Russian Far East, and the expansion of the Group's presence in the coal transportation segment.

The increase in Revenue in the year ended 31 December 2008 compared to the year ended 31 December 2007 also resulted in part from increases in revenue from operating leasing of rolling stock, railway transportation—freight forwarding and sale of wagons and locomotives. Revenue from operating leasing of rolling stock increased by USD 14,968 thousand or 29.0 per cent. to USD 66,661 thousand in 2008 compared to the previous year. This was primarily driven by the increase in the number of rolling stock leased-out, which rose by 6.1 per cent. at the end of 2008 compared to the end of 2007 (including Spacecom and Intopex both in 2007 and 2008), as well as improved leasing rates over the reporting period. The increase in revenue derived from railway transportation—freight forwarding of USD 1,624 thousand to USD 5,412 thousand in 2008 was primarily the result of an increase in volume of freight-forwarding services rendered by the Group over the reporting period. In addition, in 2008 the Group took advantage of its strong purchasing power with rolling stock manufacturers to purchase and subsequently resell rolling stock (wagons and locomotives) in excess of the Group's needs. Revenue derived from these transactions in 2008 reached USD 9,726 thousand. In the future, the Group does not expect to engage in any significant resale of rolling stock on an ongoing basis, although it may consider engaging in such activity on an opportunistic basis from time to time.

Cost of sales

The following table sets forth a breakdown of cost of sales for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	2007
	(audited)	(unaudited)
	(USD in thousands)	
Infrastructure and locomotive tariffs:		
Loaded trips	147,998	191,591
Empty Run trips and services provided by other transportation organisations	101,220	100,074
Total infrastructure and locomotive tariffs	**249,218**	**291,665**
Depreciation of property, plant and equipment	44,949	37,770
Operating lease rentals—rolling stock	31,604	38,660
Repair and maintenance	56,470	43,950
Employee benefit expense	9,816	6,163
Gain on sale of property, plant and equipment	(2,523)	(1,672)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	8,967	403
Other expenses	2,896	2,958
Total	**401,397**	**419,897**

Cost of sales decreased by USD 18,500 thousand, or 4.4 per cent., from USD 419,897 thousand in the year ended 31 December 2007 to USD 401,397 thousand in the year ended 31 December 2008 primarily due to a decrease in infrastructure and locomotive tariffs: loaded trips of USD 43,593 thousand year-on-year to USD 147,998 thousand in 2008 as a result of the increasing preference of customers to pay infrastructure and locomotive charges directly to Russian Railways as well as a decrease in operating lease rentals—rolling stock costs of USD 7,056 thousand, or 18.3 per cent., to USD 31,604 thousand in 2008 compared to the previous year (primarily as the result of a decline in number of railcars leased by the Group by 550 cars from 3,904 cars at the end of 2007 to 3,354 cars at the end of 2008). The decrease in Cost of sales was partially offset by an increase in repair and maintenance costs of USD 12,520 thousand, or 28.5 per cent., to USD 56,470 thousand in 2008 compared to 2007 (primarily as the result of an increase in the number of scheduled repairs as a significant number of the Group's owned fleet reached the age of three years, when a scheduled repair is needed for the first time, as well as increasing prices for repair and maintenance works in 2008 as compared to the previous year), an increase in the cost of wagons and locomotives sold in trading transactions by USD 8,564 thousand to USD 8,967 thousand in 2008 (primarily as the result of costs associated with resale transactions, as discussed above), and an increase in depreciation of property, plant and equipment of USD 7,179 thousand, or 19.0 per cent., to USD 44,949 thousand in 2008 compared to 2007 (primarily as a result of the expansion of the Group's owned fleet).

Gross profit

Gross profit increased by USD 74,338 thousand, or 40.2 per cent., from USD 185,135 thousand in 2007 to USD 259,473 thousand in 2008, due to the factors discussed above.

Selling, marketing and administrative expenses

Total selling, marketing and administrative expenses increased by USD 8,537 thousand or 18.4 per cent., to USD 54,914 thousand for the year ended 31 December 2008 from USD 46,377 thousand for the year ended 31 December 2007, reflecting an increase in the legal, consulting and other professional fees associated with the expense from the IPO and auditors' remuneration, partially offset by a decrease in employee benefit expense from USD 23,647 thousand in 2007 to USD 20,081 thousand in 2008. Total employee benefit expense (including the component attributable to the Group's Cost of sales) amounted to USD 29,897 thousand and remained relatively stable in the year ended 31 December 2008, compared to the year ended 31 December 2007, with the increase in average employee salaries being offset by a decrease in the total number of employees to 550 in 2008 from 620 in 2007, primarily driven by the discontinuation of operators services offered by Spacecom in mid-2008 and its concentration on the railcar lease business.

Other gains—net

Other gains—net decreased by USD 3,068 thousand, from USD 6,277 thousand in the year ended 31 December 2007 to USD 3,209 thousand in the year ended 31 December 2008. The significant decrease reflected the sale of subsidiaries in 2007 along with net foreign exchange losses on non-financing activities recorded in 2008.

Operating profit

The Group's operating profit amounted to USD 207,768 thousand in 2008, an increase of USD 62,733 thousand or 43.3 per cent. compared to the previous year as a result of the factors discussed above.

EBITDA and Adjusted EBITDA

EBITDA decreased by USD 3,904 thousand or 1.9 per cent. from USD 209,715 thousand in 2007 to USD 205,811 thousand in 2008, due to the factors discussed above.

In 2008, due to the factors discussed above, Adjusted EBITDA amounted to USD 250,266 thousand, an increase of USD 72,863 thousand or 41.1 per cent. as compared to 2007.

Finance income

Finance income decreased by 44.8 per cent. in 2008 to USD 3,394 thousand compared to the previous year. This decrease was primarily driven by the significant decrease in interest incomes on finance leases (when the Group acts as a lessor) which were partially offset by an increase in interest income on bank balances.

Finance costs

The following table sets forth a breakdown of finance costs for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	**2007**
	(audited)	**(unaudited)**
	(USD in thousands)	
Interest expense:		
Bank borrowings	(16,449)	(15,380)
Finance leases	(29,817)	(31,549)
Loans from:		
Related parties	(5,186)	(8,394)
Third parties	(528)	(909)
Total interest expense	(51,980)	(56,232)
Other finance costs	423	(411)
Net foreign exchange transaction (losses)/gains on financing activities	(48,220)	26,693
Finance costs	**(99,777)**	**(29,950)**

Finance costs increased by USD 69,827 thousand in 2008 to USD 99,777 thousand compared to the previous year, mostly due to net foreign exchange transaction losses on financing activities amounting to USD 48,220 thousand compared to net foreign exchange transaction gains of USD 26,693 thousand recorded in 2007. This was primarily the result of the significant depreciation of the Rouble against the US Dollar during 2008 (the Rouble depreciated against the US Dollar by approximately 20 per cent. as of the end of 2008 compared to the end of 2007). Foreign exchange transaction losses and gains were derived from the Group's debt and finance lease portfolio, which is mostly denominated in US Dollars and therefore exposed to the RUB/USD exchange rate fluctuations.

Total interest expense decreased by USD 4,252 thousand or 7.6 per cent. in 2008 compared to the previous year and amounted to USD 51,980 thousand in 2008. This decrease was mostly driven by a decrease in the Group's loan and leasing portfolios.

Share of profit of associates

The share of profit of associates increased to USD 556 thousand in 2008 from a loss in the amount of USD 658 thousand recorded in 2007 as the result of change in share of profit/(loss) after tax of Daugavpils Lokomotivju Remonta Rupnica, an associate of Spacecom.

Profit before income tax

Profit before income tax decreased by USD 8,634 thousand or by 7.2 per cent. in 2008 to USD 111,941 thousand compared to 2007 due to the factors discussed above.

Income tax expense

In 2008 income tax expense amounted to USD 14,565 thousand and recorded a decrease of USD 13,269 thousand or 47.7 per cent. compared to 2007. This corresponded to a decrease in the weighted average applicable tax rate to 18.8 per cent. in 2008 from 21.1 per cent. in 2007. The change in the weighted average tax rate was primarily due to the increase of the proportion of profit before tax contributed by the Estonian subsidiaries (which have a zero per cent. corporate income tax rate) to the Group's results. The annual profit earned by the Estonian subsidiaries was therefore not taxed and thus no income tax or deferred tax liabilities arose. Therefore, the applicable tax rate for the Estonian subsidiaries was zero per cent. in 2008.

During 2007 and 2008 the Russian subsidiaries were subject to a tax rate of 24 per cent. However, an income tax rate of 20 per cent. was ratified in November 2008, and became effective from 1 January 2009. As this tax rate was passed by 31 December 2008, the effect of the change on closing deferred tax liabilities was recognised in the Consolidated Financial Statements for the year ended 31 December 2008.

The discussion of the results of operations for the years ended 31 December 2007 and 2006 is incorporated by reference in this Offering Memorandum. See "Incorporation by Reference".

LIQUIDITY AND CAPITAL RESOURCES

General

The business of freight rail transportation is capital-intensive. In the periods under review, the Group's liquidity needs arose primarily from the need to incur substantial expenditures for, among other things, expansion and maintenance of its fleet of rolling stock, non-organic growth through acquisitions and 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 (including the proceeds from the IPO) and borrowed from financial institutions.

Management controls current liquidity based on expected cash flows. From a 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. As at 30 September 2009, the Group had positive net working capital of USD 64,784 thousand. Net Working Capital is calculated as the sum of the current portions of Trade receivables—net, Inventories, Prepayments—third parties, Prepayments—related parties, Other receivables—third parties, Other receivables—related parties, VAT and other taxes recoverable, less the sum of the current portions of Trade payables—third parties, Trade payables—related parties, Advances from customers, Advances from related parties, Other payables—related parties, Other payables—third parties and also excluding the Group's liability for the consideration payable for the acquisition of Spacecom and Intopex (part of Other payables).

In October and November 2009, the Group entered into agreements to purchase 2,000 new gondola (open top) cars from vendors including Russian producers, such as Uralwagonzavod, Armavirsky and Roslavlsky. The Group has prepaid a substantial portion of the purchase price for such railcars and has already received delivery of more than 330 of these railcars, with delivery of all 2,000 railcars expected by the end of January 2010.

The Group believes that it has sufficient working capital for the next 12 months and that the proceeds of the Offering will enable it to acquire more rolling stock and expand its business if the market continues to improve and appropriate opportunities arise. In the longer term, the Group plans to fund its liquidity and any discretionary capital expenditure and acquisitions needs from cash generated from operations and borrowed funds, supplemented if required by additional capital markets 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 six-month periods ended 30 June 2009 and 2008 were USD 17,766 thousand and USD 41,292 thousand, respectively and for the years ended 31 December 2008 and 2007 were USD 143,920 thousand and USD 138,507 thousand, respectively. In October and November 2009, the Group entered into agreements to purchase 2,000 new gondola (open top) cars from vendors including Russian producers, such as Uralwagonzavod, Armavirsky and Roslavlsky. The Group has prepaid a substantial portion of the purchase price for such railcars and has already received delivery of more than 330 of these railcars, with delivery of all 2,000 railcars expected by the end of January 2010. As of 27 November 2009, USD 51,246 thousand remained to be paid for these new railcars.

Cash Flows

The following table sets forth the principal components of the Company's consolidated cash flow statement for the six-month periods ended 30 June 2009 and 2008 and the years ended 31 December 2008 and 2007.

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(unaudited)		(audited)	(unaudited)
	(USD in thousands)			
Net cash from operating activities	70,570	59,397	179,965	214,002
Net cash used in investing activities	(41,411)	(67,238)	(109,832)	(107,604)
Net cash (used in)/from financing activities	(74,346)	167,928	11,755	(130,840)
Net (decrease)/increase in cash and cash equivalents	(45,187)	160,087	81,888	(24,442)
Cash and cash equivalents and bank overdrafts at end of period	**61,965**	**193,211**	**111,390**	**31,024**

Net cash from operating activities

Net cash generated from operating activities increased by USD 11,173 thousand, or 18.8 per cent., from USD 59,397 thousand in the six months ended 30 June 2008 to USD 70,570 thousand in the six months ended 30 June 2009. This increase was primarily due to the decrease by USD 20,905 thousand in taxes paid during the six months ended 30 June 2009 compared to the same period of 2008 and changes in the working capital of the Group during the same period. Working capital changes are mainly due to the fact that trade receivables increased by a greater amount in the six months ended 30 June 2009 than during the same period of 2008 and other receivables decreased during the six months ended 30 June 2009 compared to an increase during the same period of 2009.

Net cash generated from operating activities decreased by USD 34,037 thousand, or 15.9 per cent., from USD 214,002 thousand in the year ended 31 December 2007 to USD 179,965 thousand in the year ended 31 December 2008. 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 along with trade and other payables decreasing over the same period. In addition corporate income tax paid in 2008 increased by USD 8,524 thousand compared to 2007.

Net cash used in investing activities

Net cash used in investing activities decreased by USD 25,827 thousand, or 38.4 per cent., from USD 67,238 thousand in the six months ended 30 June 2008 to USD 41,411 thousand in the six months ended 30 June 2009. Net cash used in the Group's investing activities is largely dependent on amounts spent on purchases of property, plant and equipment. Purchases of property, plant and equipment decreased by USD 88,074 thousand, or 93.2 per cent., from USD 94,476 thousand in the six months ended 30 June 2008 to USD 6,402 thousand in the six months ended 30 June 2009. The decrease in purchases of property, plant and equipment reflects a suspension of the Group's capital expenditures programme in response to the unfavourable economic environment. See "Key Factors Affecting the Group's Financial Condition and Results of Operations for the Six-Month Periods ended 30 June 2009 and 2008 and the Years ended 31 December 2008 and 2007—Changes in the Group's core business—Expansion of fleet". This decrease was partially offset by cash outflows for the acquisition of Spacecom and Intopex in the amount of USD 37,024 thousand in the six months 30 June 2009.

Net cash used in investing activities amounted to USD 109,832 thousand in the year ended 31 December 2008, from USD 107,604 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, which increased by USD 40,827 thousand, or 41.2 per cent., from USD 99,199 thousand in the year ended 31 December 2007 to USD 140,026 thousand in the year ended 31 December 2008. The increase in purchases of property, plant and equipment is due to the fact that during 2008 the Group entered into contracts for the supply of 2,300 new railcars (of which 2,043 were delivered by 31 December 2008) and one locomotive. This increase was partially offset by the absence of spending on the acquisition of subsidiaries, which had amounted to USD 40,250 thousand in the year ended 31 December 2007, in connection with the acquisition of 28.75 per cent. of the share capital of Sevtekhnotrans.

Net cash (used in)/from financing activities

In May 2008 the Group received USD 219,281 thousand in net proceeds from the issue of GDRs (in connection with the IPO undertaken in May 2008) which were primarily invested in the expansion of the Group's fleet of rolling stock, resulting in an increase in net cash from financing activities for both the six months ended 30 June 2008 and the year ended 31 December 2008.

Net cash used in financing activities in the six months ended 30 June 2009 amounted to USD 74,346 thousand compared to net cash from financing activities of USD 167,928 thousand in the six months ended 30 June 2008. During the six months ended 30 June 2009 the Group continued to deleverage, making net repayments of principal amounts of borrowings and financial leases of USD 49,096 thousand in the six months ended 30 June 2009 compared to USD 4,729 thousand in the six months ended 30 June 2008.

The discussion of cash flows for the years ended 31 December 2007 and 2006 is incorporated by reference in this Offering Memorandum. See "Incorporation by Reference".

Capital Resources

The Group's financial indebtedness consisted of bank overdrafts, bank borrowings, loans from related and third parties and finance lease liabilities in an aggregate principal amount of USD 410,321 thousand (including accrued interest of USD 1,766 thousand) as at 30 September 2009, representing a decrease of USD 35,307 thousand or 7.9 per cent. when compared to 31 December 2008. The Group had financial indebtedness in an aggregate principal amount of USD 445,628 thousand as at 31 December 2008 and USD 546,562 thousand as at 31 December 2007. 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 includes unsecured borrowings from banks and related parties and unsecured commitments from banks.

The Group's bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to USD 14,286 thousand as at 30 September 2009. With effect from 15 April 2008 the pledge agreement in favour of International Finance Corporation for the pledge of 26 per cent. of the charter capital of Sevtekhnotrans was terminated and replaced by a share retention agreement whereby TIHL is obliged to retain at least 26 per cent. of the share capital of the Company free and clear of any lien, and the Company is obliged to maintain 100 per cent. of the share capital of Sevtekhnotrans free and clear of any lien.

In accordance with the terms of a loan facility from Cargill Financial Services International, Inc., one of the Company's subsidiaries must observe certain ratios, which are calculated on a quarterly basis. As at 30 September 2008 due to the substantial devaluation of the Rouble against the US Dollar, the subsidiary failed to comply with certain ratios and applied to the lender for waiver of this temporary noncompliance. An appropriate waiver was received in December 2008. In anticipation of a similar breach as at 31 December 2008 the subsidiary submitted an early request for waiver of potential noncompliance with ratios calculated based on annual results, utilising the 30-day remedy period specified in the loan agreement, during which noncompliance may be cured or waived by the borrower. An appropriate waiver was received in February 2009. Consequently, no event of default occurred as at 31 December 2008.

The Group's ratio of net debt to Adjusted EBITDA for the last twelve months amounted to 1.9x at 30 September 2009. The Group's ratio of net debt to Adjusted EBITDA amounted to 1.3x and 2.9x at 31 December 2008 and 2007, respectively. Net debt is defined as the sum of current and non-current borrowings less cash and cash equivalents.

As at 30 September 2009, 32.7 per cent. of the Group's borrowings were fixed rate, and the remaining 67.3 per cent. were floating rate.

The Group's borrowings consist of bank overdrafts, bank borrowings, loans from related and third parties and finance lease liabilities in an aggregate amount of USD 410,321 thousand (including accrued interest of USD 1,766 thousand) as at 30 September 2009. The following table sets forth the maturity profile and other characteristics of the Group's borrowings (excluding accrued interest of USD 1,766 thousand) as at 30 September 2009.

	As at 30 September 2009
	(USD in thousands)
4th quarter 2009	21,990
1st quarter 2010	39,858
2nd quarter 2010	43,721
3rd quarter 2010	34,628
4th quarter 2010	29,802
2011	124,682
2012	69,915
2013 to 2015	43,959
Total	**408,555**

As at 30 September 2009, the Group's weighted average interest rate was 9.97 per cent. and cash and cash equivalents amounted to USD 89,535 thousand.

As at 30 September 2009 the carrying amounts (including accrued interest of USD 1,766 thousand) of the Group's borrowings were denominated in the following currencies:

	As at 30 September 2009
	(USD in thousands)
US Dollar	285,431
Euro	301
Rouble	123,419
Estonian Kroons	1,170
Total	**410,321**

As at 30 September 2009, the Group had the following undrawn borrowing facilities:

	As at 30 September 2009
	(USD in thousands)
Floating rate:	
Expiring within 1 year	7,496
Expiring beyond 1 year	—
Fixed rate:	
Expiring within 1 year	—
Total	**7,496**

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.

Present value of finance lease liabilities	As at 31 December 2008	2007
	USD in thousands	
Not later than 1 year	80,544	66,840
Later than 1 year and not later than 5 years	181,783	196,525
Later than 5 years	11,041	17,412
Total	**273,368**	**280,777**

The following table summarises the Group's operating lease obligations required under non-cancellable operating leases.

Future aggregate minimum operating lease payments	As at 31 December 2008	2007
	USD in thousands	
Not later than 1 year	17,500	62,984
Later than 1 year and not later than 5 years	11,400	48,762
Total	**28,900**	**111,746**

In September 2009, the Company concluded an additional agreement with TIHL whereby the schedule of payments of consideration for the purchase from TIHL of the Group's share in the Estonian Subsidiaries was amended as the Group was able to partially re-finance this interest-bearing liability on more favourable terms. Pursuant to the amended payment schedule, in September 2009 the Company settled USD 25 million which was due in 2010 plus interest accrued on that amount, and in October 2009 an additional instalment of USD 7 million plus interest accrued thereon was paid. According to the amended schedule, the remaining balance of USD 7 million plus interest is payable no later than 1 May 2010.

As at 30 September 2009, 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 30 September 2009, 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.

In October and November 2009, the Group entered into agreements to purchase 2,000 new gondola (open top) cars from vendors including Russian producers, such as Uralwagonzavod, Armavirsky and Roslavlsky. The Group has prepaid a substantial portion of the purchase price for such railcars and has already received delivery of more than 330 of these railcars, with delivery of all 2,000 railcars expected by the end of January 2010. As of 27 November 2009, USD 51,246 thousand remained to be paid for these new railcars.

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 cash flow and fair value 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 Company or any of its subsidiaries. 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 financial assets, liabilities and capital commitments denominated in US Dollars as at 31 December 2008 and 2007 held by the Group are as follows:

	As at 31 December	
	2008	2007
	(USD in thousands)	
Assets	105,896	24,607
Liabilities	463,184	424,403
Capital commitments	—	32,418

Had the US Dollar exchange rate strengthened or weakened by 33 per cent. against the Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2008, would have decreased or increased by USD 95,299 thousand (excluding translation effects). Had the US Dollar exchange rate strengthened or weakened by 6 per cent. against the Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2007, would have decreased or increased by USD 14,386 thousand (excluding translation effects). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US Dollars for the Russian subsidiaries of the Group.

Had the US Dollar exchange rate strengthened/weakened by 25 per cent. against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2008, would have decreased/increased by USD 17,126 thousand (excluding translation effects). Had the US Dollar exchange rate strengthened/weakened by 6 per cent. against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2007, would have decreased/increased by USD 5,037 thousand (excluding translation effects). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US Dollar for the Estonian Subsidiaries.

The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group also intends to re-finance some of its US Dollar denominated liabilities by obtaining long-term debt denominated in Roubles. However, as the US Dollar interest rates continue to be relatively attractive compared to the Rouble interest rate, a substantial portion of the Group's long term borrowings continue to be in US Dollars.

The proportion of the Group's debt denominated in Rouble increased from 13 per cent. as at 31 December 2008 to 24 per cent. as at 30 June 2009.

Credit risk

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

Depending on the type of customer and length of customer relationship, the Group's contracts with customers 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 nine months ended 30 September 2009:

- sales to customers with contracts requiring payment in advance represented 50 per cent. of the Group's total revenue (57 per cent. of which (approximately 30 per cent. of total revenue) were contracts requiring full payment in advance, and the remaining 43 per cent. required payment of 30 to 80 per cent. of the contract price in advance);
- sales to customers with contracts requiring full payment prior to delivery of cargo represented 10 per cent. of the Group's total revenue; and
- sales to customers with contracts requiring no payment in advance represented 40 per cent. of the Group's total revenue. Such customers generally paid 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.

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.

Accounts receivable and finance lease receivable	As at 31 December 2008	As at 31 December 2007
	(USD in thousands)	
Fully performing	21,277	59,984
Past due	40,725	15,929
Impaired	2,634	2,900
Impairment provision	(2,634)	(2,900)
Total	**62,002**	**75,913**

Past due receivables increased significantly in 2008 as certain of the Group's customers delayed payment beyond their normal payment terms during the economic downturn. By April 2009, USD 36,015 thousand of the past due receivables outstanding as of 31 December 2008 had been repaid.

Cash Flow and Fair Value Interest rate risk

A substantial proportion of the Group's non-current indebtedness is floating rate. In addition, approximately 89 per cent. of the Group's committed and undrawn borrowing facilities were floating rate as at 31 December 2008. As a result, the Group's income and operating cash flows are exposed to changes in market interest rates. The Group obtains borrowings at current market interest rates and has not historically hedged against changes in interest rates. 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 rates.

SIGNIFICANT ACCOUNTING POLICIES, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management 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's management 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 Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

1. *Revenue from transportation services*

   The Group operates the following services:

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

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

   There are three types of operator's services:

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

Revenue is recognised in accordance to the stage of completion of the transaction.

(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 Railway 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. Revenue is recognised in accordance to the stage of completion of the transaction.

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
Buildings	30
Hoppers, open wagons, platforms 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.

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 collateralised borrowing.

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

The Group is the lessor

(a) *Finance leases*

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

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

(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 and cash and cash equivalents in the balance sheet.

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 asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Inventories

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

Cash 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 and contingent liabilities

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.

Provisions are only used to cover those expenses which they had been set up for. Other possible or present obligations that arise from past events but it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligations; or the amount cannot be measured with sufficient reliability are disclosed in the notes to the Consolidated Financial Statements as contingent liabilities.

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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

Current and deferred income tax

The tax expense for the period comprises of current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current income 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretations and establishes provisions where appropriate on the basis of amounts expected to be paid to 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. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only 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 associates except where the Group can control the timing of the reversal 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 ancillary 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.

Critical Accounting Estimates and Judgements

Critical accounting estimates and judgements are those that require the application of management's most challenging, subjective or complex judgements, 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 judgements 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 judgements used in preparing the Consolidated Financial Statements is set forth therein. The Group believes its most critical accounting estimates and judgements 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 147,998 thousand for the year ended 31 December 2008 (USD 191,591 thousand for the year ended 31 December 2007).

(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.

Impairment of Assets

The Group reviews long-lived assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. If the total of the discounted future cash flows is less than the carrying amount of the asset or group of assets, the asset is not recoverable and an impairment loss is recognised for the difference between the estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) and the carrying value of the asset or group of assets. Long-lived assets are assessed for possible impairment upon the occurrence of a triggering event. Events that can trigger assessments for possible impairments include, but are not limited to (a) significant decreases in the market value of an asset, (b) significant changes in the extent or manner of use of an asset, and (c) a physical change in the asset. Estimating discounted future cash flows requires us to make judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about demand for our services, future market conditions' and future technological developments. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, the Group cannot reasonably quantify the impact of changes in these assumptions. Based on the current world-wide economic circumstances, the Group performed a test of the estimated recoverable amount of the cash generating unit compared to its carrying value.

The smallest cash generating unit to which this can be applied is by type of rolling stock for the Russian subsidiaries and by type of rolling stock for each legal entity for the Estonian subsidiaries. The impairment review took account of the recoverable amount of this cash generating unit which was based on a value in use calculation utilising the unit's annual budget for the forthcoming year and forecasts for the following years up to the end of their useful lives. Projected cash flows have been discounted using a pre-tax discount rate of 18.57 per cent. for the Russian subsidiaries and 15.8 per cent. for the Estonian subsidiaries.

A substantial excess of value in use over the carrying amount of rolling stock was identified for all categories of property, plant and equipment, except for platforms, which have been contracted to be purchased by the Group for a total amount of USD 6,634 thousand in the year ended 31 December 2008.

For platforms assessment, in the absence of prior experience of operating this type of rolling stock, management assumed profitability to be the same as for gondola cars. This resulted in value in use approximating the carrying value of this rolling stock. Should the assumptions on profitability associated with the operation of platforms be different, impairment might have been recognised, however, given the nature of these assumptions and the absence of reliable information relating to the operation of this type of rolling stock, the Group cannot reasonably quantify the impact of changes in these assumptions.

As a result of test performed no deficit of value in use over the net carrying value of rolling stock has been identified, consequently, no impairment loss has been recognised in these Consolidated Financial Statements.

See also "—Key Factors Affecting the Group's Financial Condition and Results of Operations for the Six-Month Periods ended 30 June 2009 and 2008 and the Years ended 31 December 2008 and 2007—Service offerings and types of customer contracts".

New Accounting Pronouncements

The IASB has recently promulgated certain new International Financial Reporting Standards (***IFRS***), with amendments to standards and amendments to interpretations. In addition, the European Commission has further adopted certain amendments to standards and amendments to interpretations into EU IFRS. These new standards and amendments are described in Note 2 to the Consolidated Financial Statements for the year ended 31 December 2008 and Note 3 to the Interim Condensed Financial Information. As at the date of the Consolidated Financial Statements, all new standards and amendments that are relevant to the Group's operations and are effective for accounting periods beginning on 1 January 2009 have been adopted.

RUSSIAN RAIL TRANSPORTATION MARKET

Overview

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. The railway system is the key mode of transportation in Russia with total length of general use railroad track of approximately 85.2 thousand kilometres, making it the second largest network in the world in terms of track length after the United States, according to Russian Railways.

In addition, Russia's railway system is the third largest rail network, after China and the United States, in terms of the volume of freight rail turnover, according to Russian Railways. In 2008 more than 1.3 billion tonnes of freight was transported by rail in Russia, and freight rail turnover was 2,113 billion tonnes-km. Nevertheless, in absolute figures Russian freight rail transportation is still below the peak of 2,523 billion tonnes-km recorded in 1990.

Rail dominates the freight transportation market in Russia, comprising approximately 42.7 per cent. of the country's overall freight turnover in 2008, and 85.2 per cent. if pipeline traffic is excluded, according to Rosstat. The high share of rail in the Russian freight transportation market is driven by the country's geography, the economic importance of commodity production and heavy industry in Russia as well as by the limitations of other transportation networks. The Russian road systems are insufficient in terms of coverage and capacity, and waterways freeze in winter and only connect a limited number of demand centres. The use of road transportation and air transport are not economically efficient for long-distance transportation of heavy and bulky cargoes like coal, metals, ores, and oil products, which account for a large proportion of Russian freight turnover, and although the majority of crude oil is transported by pipeline, the majority of oil products are transported by rail.

The table below sets forth a breakdown of freight turnover in Russia by the different means of transport in 2008.

	Freight Turnover (2008)	
	(tonnes-km in billions)	(per cent.)
Railway	2,113.2	42.7%
Road	215.5	4.4%
Marine	84.6	1.7%
Inland Waterway	63.5	1.3%
Air	3.7	0.1%
Pipeline	2,463.5	49.8%
Total	**4,944.0**	**100.0%**

Source: Rosstat

Freight rail volumes in Russia have historically been, and continue to be, largely comprised of commodities such as coal, oil products and oil, construction materials, metals and ores. In 2008, coal (coking and thermal) accounted for 23.7 per cent. of the total volume of cargo transported in Russia, while construction materials (including cement) accounted for 17.9 per cent. Oil products and oil, followed by ferrous metals, scrap metals and iron ore, accounted for a further 17.8 per cent. and 17.7 per cent., respectively. Strong growth in production of these goods in Russia contributed to a compound annual growth rate in freight rail turnover of 5.5 per cent. between 2000 and 2008, according to Rosstat.

In the last quarter of 2008 some sectors of the Russian economy, in particular the metallurgical and construction industries, experienced sharp declines in demand due to the global economic downturn. Decreased demand led to a corresponding negative trend in the volume of freight rail turnover in Russia, which continued in early 2009. Since February 2009, volumes of freight rail turnover have begun to recover, with volumes of freight rail turnover increasing by 34.6 per cent. from a low of 123.4 billion tonnes-km in January 2009 to 166.1 billion tonnes-km in October 2009, according to Rosstat. For a more detailed discussion of trends in metallurgical, oil products and oil, coal and construction materials volumes, see "—Trends in Key Freight Rail Transportation Sectors".

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 fleets of railcars. Private operators are able to set their own railcar prices and are able to compete on price as well as on quality of service. However, Russian Railways, together with its subsidiary, Freight One, remains the leading player in many 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 traction continue to have a major impact on pricing in certain segments. Further stages of the planned rail reforms are expected to reduce the role of regulated tariffs and increase competition in the freight rail market. For more detailed discussions of the reform of the Russian freight rail industry, see "—Russian Rail Transportation Market—Reform of Russian Rail Transportation Market" and "Regulation of Railway Transportation in Russia—Structural Reform of Railway Transportation in the Russian Federation".

MACROECONOMIC OVERVIEW

During the five years prior to mid-2008 the Russian economy benefited from favourable commodity prices, political stability and low tax rates, which contributed to strong growth in GDP from USD 432 billion in 2003 to USD 1,677 billion in 2008. The growth in the economy provided the Russian government with significant budget surpluses, which enabled increased public investment in infrastructure and accumulation of foreign exchange reserves. Growing incomes resulted in strong demand for housing and consumer goods.

Starting from the second half of 2008 the Russian economy was adversely affected by the global economic downturn. However, foreign currency reserves accumulated by the Russian government during the period of growth from 1999 to 2008, relatively inelastic demand for oil products and oil as well as significant stimulus packages put in place by Russian government and other governments around the globe helped the Russian economy to withstand the global economic downturn. Depreciation of the Rouble also substantially improved the cost competitiveness of Russia's export-focused industries.

The rebound of Russia's economy has been primarily driven by recovery in its key commodities industries but has also been supported by a recovery in domestic demand. Demand trends for coal, construction materials and ferrous metals, scrap metals and iron ore have all improved in the second quarter of 2009, while demand for oil products and oil has remained generally steady, as it has throughout the economic downturn.

RUSSIAN RAIL TRANSPORTATION MARKET

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 programme of structural reform of rail transportation in Russia (the ***Reform***). The Reform was initiated by the Russian government in 2001 with the goal, among others, of satisfying the growing demand of the Russian economy for transportation services by increasing the efficiency of the existing rail infrastructure. In particular, the Reform was designed to attract investment, including private investment, to the sector, which is burdened with an ageing fleet of railcars and locomotives and an infrastructure that requires substantial investment. See "Regulation of Railway Transportation in Russia—Structural Reform of Railway Transportation in the Russian Federation" for further details regarding the Reform.

The Reform is ongoing. While Russian Railways retains a monopoly in the provision of rail infrastructure and is by far the major player in the provision of locomotive traction services, the new regulatory framework provides third-party operators with a legal right to access such infrastructure on a non-discriminatory basis alongside Russian Railways and its subsidiaries. Private operators have benefited from the Reform, enjoying unregulated pricing and substantially increasing their market share in a number or railcar segments in recent years.

In 2007 Russian Railways established Freight One, a wholly owned operating subsidiary, to engage in freight transportation on a competitive basis. The Russian government and Russian Railways have made recent public statements re-affirming their plan to create another competitive freight transportation subsidiary, Freight Two, to which the majority of Russian Railways' remaining fleet will be transferred. It is envisaged that, in the future, subsidiaries such as Freight One, TransContainer and Freight Two (when and if created) will be partially divested with minority interests offered to investors in order to attract new capital and private sector expertise into such subsidiaries.

Full liberalisation of locomotive traction, as envisioned by the Reform, remains to be implemented, and the timing of such liberalisation is uncertain. Russian Railway's locomotive fleet is ageing and will require significant replacement investment in coming years. The Russian government and Russian Railways will likely need private capital to fund a portion of such investments, similar to the significant private investments in railcars in the course of the Reform.

Some private freight rail operators (including Globaltrans and BTS) already use some owned locomotives for freight rail transportation.

In 2008, as a part of the ongoing Reform and industry liberalisation, Russian Railways divested a sizeable number of railcar repair depots to private investors. This has led to increased competition between private companies and Russian Railways in certain segments of railcar repair services.

Pricing in the Russian Railcar Sector

Generally, tariffs which apply to the services provided by Russian Railways are established by the FST. The freight rail transport service tariff includes the following two main components: the infrastructure together with locomotive traction tariff and the railcar tariff. The infrastructure and locomotive traction tariff is set by the FST for all market participants. As result of the Reform, however, 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 influenced to an extent 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 crossings 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 some examples of the types of cargoes falling into each tariff class.

- Class 1 cargoes include thermal and coking coal, iron ore, natural construction materials (including crushed stone and sand), cement and wood.
- Class 2 cargoes include crude oil, gasoline, kerosene, diesel fuel, heating oil and fertilisers.
- Class 3 cargoes include ferrous and non-ferrous metals, scrap metal, construction materials for industrial production, metal construction products, lubricants and oils, automobiles and soft goods.

Although cargo Class is a factor in determining tariffs, it is not always a key driver of profitability. The ability to optimise empty runs is one of the most important factors contributing to profitability for private freight rail operators. For more information on route optimisation practices, see "Business—Services—Freight rail transportation—Operation of general-purpose gondola (open top) cars".

Railcar prices charged by private operators are not regulated. However, in addition to its role as provider of infrastructure services at regulated tariffs, Russian Railways and its subsidiaries remain the largest provider of freight rail transportation and related services. As a result, the regulated freight railcar tariffs charged by Russian Railways often serve as an effective benchmark for the unregulated prices charged by privately owned freight rail transportation services providers.

In most recent years, railcar tariffs have grown faster than CPI. Above-CPI tariff increases are intended to allow Russian Railways to generate funds for its investment programme, and to attract private capital to invest in the sector. The average Russian Railways regulated tariff is estimated to have grown by approximately 11 per cent. in 2009 (i.e. between December 2008 and December 2009). According to the Minister of the Russian Federation for Economic Development and Trade, the regulated railway tariff will be increased by 9.4 per cent. in 2010, subject to final approval by the FST in December 2009. The railcar tariff charged by Russian Railways may continue to be influenced by, among other things, the financing costs of Russian Railways' significant investment programme, which may dictate tariff increases higher than the rate of inflation.

The table below sets forth the development of regulated railway tariffs between 2003 and 2009 compared to CPI.

Regulated freight rail transportation tariff growth (2003 to 2009)

	Years ended 31 December						
	2003	2004	2005	2006	2007	2008	2009(1)
Percentage growth in the CPI between December and December of the previous year	12.0	11.7	10.9	9.0	11.9	13.3	11.7
Percentage growth in railway tariff between December and December of the previous year	26.5	12.6	13.3	8.9	7.7	22.1	11.0

(1) Estimated

Source: Rosstat for 2003-2008; CPI—Global Insight forecast for 2009

Fleet Overview

The fleet of rolling stock in Russia consists predominantly of general purpose rolling stock such as gondola (open top) cars, and specialised rolling stock, such as rail tank cars, as set forth in the table below.

Overall Russian railcar fleet by type of wagons (as at 31 December 2008)

	Number of rolling stock	
	(thousands)	(per cent.)
Gondola (open top) cars	372	37.0%
Rail tank cars	237	23.6%
Box cars (covered wagons)	78	7.8%
Flat cars	68	6.8%
Other (including various types of hopper cars)	249	24.8%
Total	**1,004**	**100.0%**

Source: Russian Railways, Russian Railways-Partner industry journal

The most common type of railcar in Russia is the gondola (open top) car. Gondola (open top) cars can be used to carry a wide variety of cargoes, including ferrous metals, scrap metals, ores, crushed stone, coal and timber. Rail tank cars, the second most common type of railcar in Russia, are designed to transport liquid and gaseous commodities and are used mostly for the transportation of oil products and oil. Hopper cars are designed to carry various dry cargoes, including grain, cement and fertilisers. Flat cars have an open flat deck and may be designed to carry machinery, shipping containers or other loads that are too large or cumbersome to load in other types of cars.

The competitive landscape in the Russian freight rail transportation market has changed significantly since commencement of the Reform in 2001. Private operators have been expanding their fleets through the acquisition of new railcars increasing their share of all Russian railcars from 27 per cent. in 2003 to 39 per cent. by 2008. The fleet of Russian Railways is relatively old, with an average age of 22 years (with its gondola (open top) cars having an average age of about 19 years at the end of 2008 while the average service life of a gondola (open top) car is up to 22 years excluding potential extension of useful life). In addition, in recent years Russian Railways has increasingly been scrapping railcars from its ageing fleet, with acquisitions being made primarily for the purpose of replacing scrapped fleet. This reflects its current investment priorities which have been focussed on improvement of the rail infrastructure rather than fleet expansion. As a result, the share of Russian Railways and its subsidiaries of all railcars in Russia has decreased from 73 per cent. at 31 December 2003 to 61 per cent. at 31 December 2008.

The table below shows that the share of rolling stock owned by private operators has been steadily growing since 2003, while rolling stock owned by Russian Railways has remained relatively static.

Overall Russian railcar fleet by type of ownership

	Years ended 31 December					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
			(000s railcars)			
Russian Railways and affiliates	627	633	624	630	623	613
Private operators	230	242	280	300	353	391
Total	**857**	**875**	**904**	**930**	**976**	**1,004**

Source: Company data for 2003-2006; Russian Railways for 2007-2008; Russian Railways-Partner industry journal for 2008

Market prices for railcars in Russia

Market prices for railcars in Russia are generally cyclical and are strongly impacted by such factors as overall economic conditions as well as the prices for raw materials such as steel, which is a primary component used in the manufacture of new railcars.

In recent years, market prices for railcars increased rapidly; for example, in 2006 the average price of a gondola (open top) car was USD 35,800, according to Company data, but rose to USD 78,600 in 2008, according to "Industrial Cargoes" journal. This price increase was due to several factors, including steady growth in transportation volumes, rising steel prices and a general shortage of manufacturers' production capacity. However, demand for railcars decreased rapidly during the global economic downturn. This was largely attributable to the fall in transportation volumes, which led to an oversupply of railcars on the market. This situation was compounded by the financial difficulties experienced by some operators. For example, due to reduced demand and moderate steel prices, as of October 2009 the average price of a gondola (open top) car stood at approximately USD 42,400.

Key market players

Despite significant growth in the number of railcars owned by private companies in Russia, the number of such companies has decreased in recent years. At its peak there were 2,500 companies owning at least one railcar, but by the end of 2008 the number of private owners had decreased to about 1,600. Further strengthening of competition is expected to lead to further consolidation. Large operators of railcars have competitive advantages that allow them to attract some of the largest Russian rail transportation customers. A larger fleet provides the flexibility to supply rolling stock on short notice and operating on a large scale can provide a "one-stop-shop" service to key customers that have production facilities, suppliers and cargo destinations in multiple locations. Large operators can also achieve efficiency gains through logistical optimisations, for example, by reducing Empty Run Costs, thus increasing profitability. However, the industry remains relatively fragmented, with the top 10 Russian private freight rail operators accounting for approximately 40 per cent. of the whole private fleet, and the top 20 such operators accounting for approximately 53 per cent.

Key market participants include the Group and other independent operators as well as a number of "captive" freight rail operators owned by large Russian industrial groups.

Top 10 private freight rail operators by number of railcars (2008)

	Railcars Operated as at 31 December 2008
1. Globaltrans (including subsidiaries)	26,940
2. Gazpromtrans	21,638
3. Transoil	17,000
4. Transgarant	16,376
5. UTS	15,050
6. DVTG (Far Eastern Transport Group)	14,196
7. Sibur-Trans	13,237
8. Novotrans	12,000
9. Evrosib-SPb	11,700
10. BTS	9,577

Source: Russian Railways-Partner industry journal

The table below sets out the top 10 private owners of gondola (open top) cars.

Top 10 private owners of gondola (open top) cars (2008)

	Gondola (open top) Cars Owned as at 31 December 2008
1. Globaltrans (including subsidiaries)	12,997
2. Metalloinvesttrans	7,024
3. DVTG (Far Eastern Transport Group)	5,042
4. Transgarant	4,493
5. EvrazTrans	3,132
6. Nezavisimaya Transportnaya Kompania	2,518
7. MMK-Trans	2,269
8. Evraziyskiy Truboprovodniy Consortium	2,130
9. Evrosib-SPb	1,815
10. Gazpromtrans	1,559

Source: Russian Railways-Partner industry journal

The table below sets out the top 10 private owners of rail tank cars.

Top 10 private owners of rail tank cars (2008)

	Rail Tank Cars Owned as at 31 December 2008
1. OTEKO	14,800
2. Gazpromtrans	11,632
3. Globaltrans (including subsidiaries)	9,489
4. UTS	7,268
5. TEK Evrotrans	7,236
6. BTS	6,582
7. Transoil	5,000
8. MHK Evrokhim	3,690
9. Sibur-Trans	3,521
10. DVTG (Far Eastern Transport Group)	3,410

Source: Russian Railways-Partner industry journal

TRENDS IN KEY FREIGHT RAIL TRANSPORTATION SECTORS

Growth in 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. Russian freight rail turnover and transportation volumes have increased steadily since 2000, but have not yet reached the levels achieved during Soviet times (e.g. 1990), as set forth in the table below.

Overall Russian freight rail turnover

Years ended 31 December (tonnes-kilometres in billions)									
1990	2000	2001	2002	2003	2004	2005	2006	2007	2008
2,523	1,373	1,434	1,510	1,669	1,802	1,858	1,951	2,090	2,113

Source: Rosstat

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. (see "Business—Strategy—Return oriented fleet expansion and growth in transportation volumes").

Set forth below is certain data on the key cargoes transported by rail in Russia. In addition, for more detailed information on the Russian oil product and oil market, see "Business and Financial Information of BTS—Russian Oil Product and Oil Rail Transportation Market".

Ferrous metals, scrap metal and iron ore

Overview of key trends in the metallurgical industry in Russia

The increase in production by the Russian metallurgical industry from 2000 to 2008 was primarily driven by the growth in domestic consumption of ferrous metals and metallurgical raw materials due to rapid development of major industries such as automotives, shipbuilding, fuel and energy, railway transportation and construction. Growing domestic demand was also supported by strong global demand for steel. With the gradual rebound of Russian domestic demand after the economic downturn, the same factors as well as export sales are expected to be the drivers of Russian metallurgical production in the future. The table below sets out historical Russian production volumes for selected metallurgical cargoes.

Russian production volumes of certain metallurgical cargoes (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
	(tonnes in millions)				
Iron ore	87	102	105	100	67
Cast iron	45	52	52	48	32
Rolled steel	47	58	60	57	37
Total	**178**	**213**	**216**	**205**	**136**

Source: Rosstat

Historical rail transportation volumes of certain metallurgical cargoes (2000-September 2009)

Over the period 2000-2008, increasing production volumes of metallurgical cargoes were a primary driver of rail transportation volumes of metallurgical cargoes. The recent economic slowdown has resulted in substantial decreases in transportation volumes for the metallurgical industry. Some of the key factors at play in the economic downturn included the decrease in global demand for metals and mining products, the significant decline in the domestic construction industry as well as the process of inventory de-stocking by major Russian metallurgical producers.

The table below sets out the rail transportation volumes for ferrous metals, scrap metal and iron ore in Russia for selected years from 2000 through the first nine months of 2009.

Russian ferrous metals, scrap metal and iron ore rail transportation (2000—September 2009)

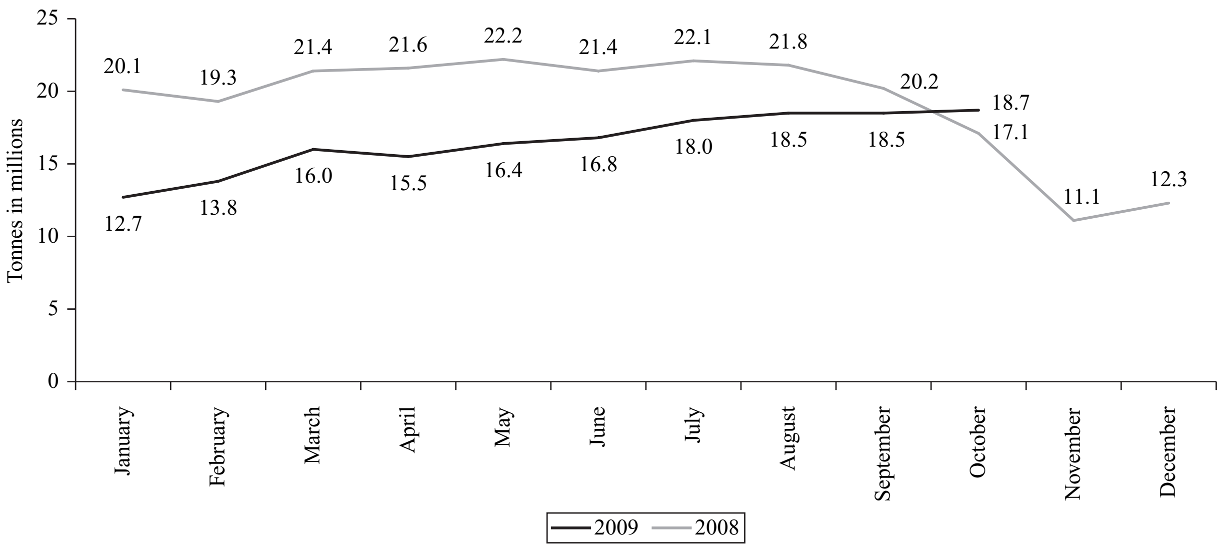
	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
			(tonnes in millions)		
Ferrous metals, scrap metals, iron ore	194.7	244.0	246.1	230.6	146.2

Source: Rosstat

The negative trend in transportation volumes of metallurgical products in Russia slowed significantly during the nine months ended 30 September 2009, with the decrease in volume dropping from a 37 per cent. decrease in January 2009, as compared to January 2008, to an only 8 per cent. decrease for September 2009, as compared with September 2008. This renewed increase in freight rail transportation volumes of key metallurgical cargoes is driven in part by the normalisation of the inventory cycle by major Russian producers, an increase in export volumes to Asian markets as well as the increased competitiveness of Russian steel producers because of Rouble devaluation. As of the third quarter of 2009, the largest Russian steel producers are increasing their production volumes to levels close to those achieved before the downturn.

The chart below sets forth the monthly rail transportation volumes for ferrous metals, scrap metal and iron ore in millions of tonnes for 2008 and the first ten months of 2009.

Monthly rail transportation volumes for ferrous metals, scrap metal and iron ore



Source: Rosstat

Oil products and oil

Overview of key recent trends in the oil and oil products industry in Russia

Russian crude oil production has been broadly flat in recent years with production in new regions increasing and production in the current core producing regions remaining stable or registering a slight decline. Refining at Russian refineries has increased in recent years (from 207 million tonnes in 2005 to 236 million tonnes in 2008, a CAGR of 4.5 per cent.), encouraged by changes to the Russian fiscal system intended to make refining within Russia more attractive than oil and condensate exports. The table below sets out historical production volumes of oil products and oil in Russia. In addition, for more detailed information on the Russian oil product and oil market, see "Business and Financial Information of BTS—Russian Oil Product and Oil Rail Transportation Market".

Russian production volumes of oil products and oil (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
			(tonnes in millions)		
Oil	324	481	491	489	368
Gasoline	27	34	35	36	27
Diesel	49	64	66	69	50
Fuel oil	48	59	62	64	47
Other oil products	48	61	64	68	52
Total	**497**	**699**	**719**	**724**	**544**

Source: Argus for 2006 through September 2009; Rosstat and Company data for 2000

Historical rail transportation volumes of oil products and oil (2000-September 2009)

The majority of Russian oil and condensate is transported directly from the field to Russian refineries and export destinations by pipeline (83.1 per cent. in 2008) which, for the majority of crudes, is the most economically effective means of transport. Rail or multi-modal transport including rail accounts for substantially all the remaining volumes. The majority of Russian refined products are transported by rail (83.5 per cent. of total volumes in 2008).

The table below sets out the rail transportation volumes for oil products and oil in Russia for selected years from 2000 through the first nine months of 2009.

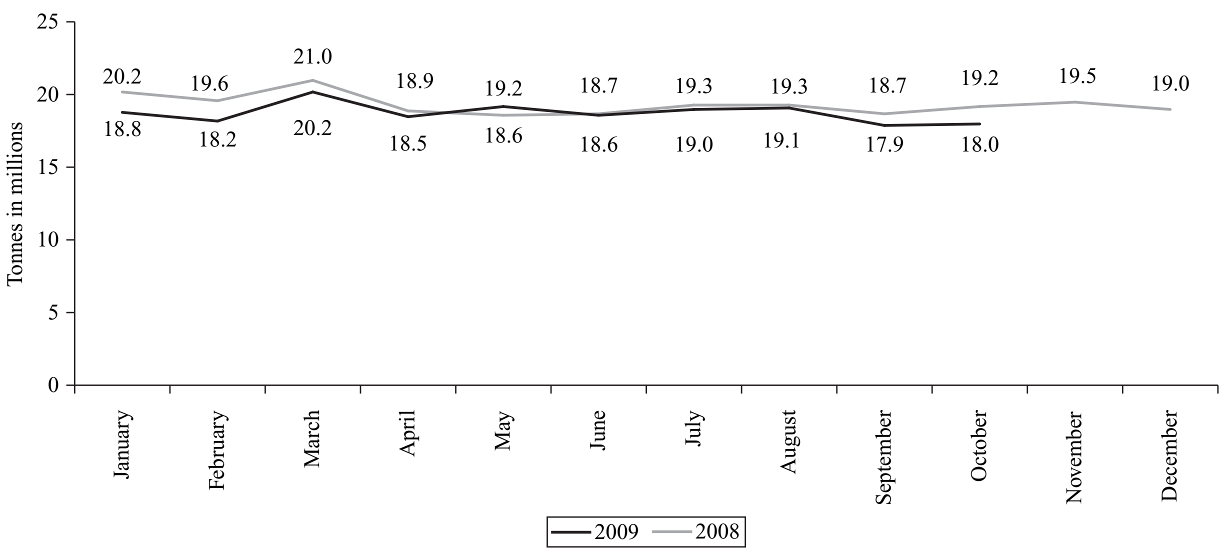
Russian oil products and oil rail transportation (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
			(tonnes in millions)		
Oil products and oil	150.0	229.6	232.7	232.0	169.5

Source: Rosstat

The oil products and oil transportation market remained resilient throughout the economic downturn, reflecting the highly inelastic supply and demand for oil products and oil. In the nine months ended 30 September 2009, the overall transportation volume of oil products and oil in Russia exhibited only a 2.8 per cent. decline compared to the same period of the previous year, while by contrast the overall volume of freight transported in Russia dropped by 19.4 per cent. over the same period. The chart below sets forth the monthly rail transportation volumes for oil products and oil in millions of tonnes for 2008 and the first ten months of 2009.

Monthly rail transportation volumes for oil products and oil



Source: Rosstat

Coal

Overview of key recent trends in the coal industry in Russia

The dynamics driving coal production volumes in Russia vary considerably between coking coal and thermal coal. Production of coking coal, used in metallurgical production, is driven by the same key factors as the metallurgical industry. See "—Ferrous metals, scrap metal and iron ore—Overview of key trends in the metallurgical industry in Russia". Thermal coal production in Russia has been driven by the growing demand for electricity from industrial consumers, growing prices and demand for thermal coal in the international markets, the relative scarcity of, and high prices and demand for, oil and gas, as well as the changing fuel mix of fuel generation toward coal and energy consumption both in Russia and internationally (particularly in China and India). With the gradual rebound of Russian domestic demand the same factors are expected to continue to be drivers of Russian coal production in the future. The table below sets out historical production volumes of coking and thermal coal in Russia between 2000 and September 2009.

Russian production volumes of coking and thermal coal (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
	(tonnes in millions)				
Coking coal	62	68	71	66	43
Thermal coal	196	242	243	260	169
Total	**258**	**310**	**314**	**326**	**212**

Source: Rosstat

Historical rail transportation volumes of coal (2000-September 2009)

Decline in coking coal production has likely been the key driver of the decrease in overall coal transportation volumes. The decrease in thermal coal production, resulting from an overall decrease in electricity demand (which nonetheless declined at a slower rate than GDP) which led to decreased demand for thermal coal, also contributed to the decline in coal transportation volumes, although to a lesser extent.

The table below sets out the rail transportation volumes for coal in Russia for selected years from 2000 through the first nine months of 2009.

Russian coal rail transportation (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
	(tonnes in millions)				
Coal (coking and thermal)	253.4	300.4	298.6	308.8	206.5

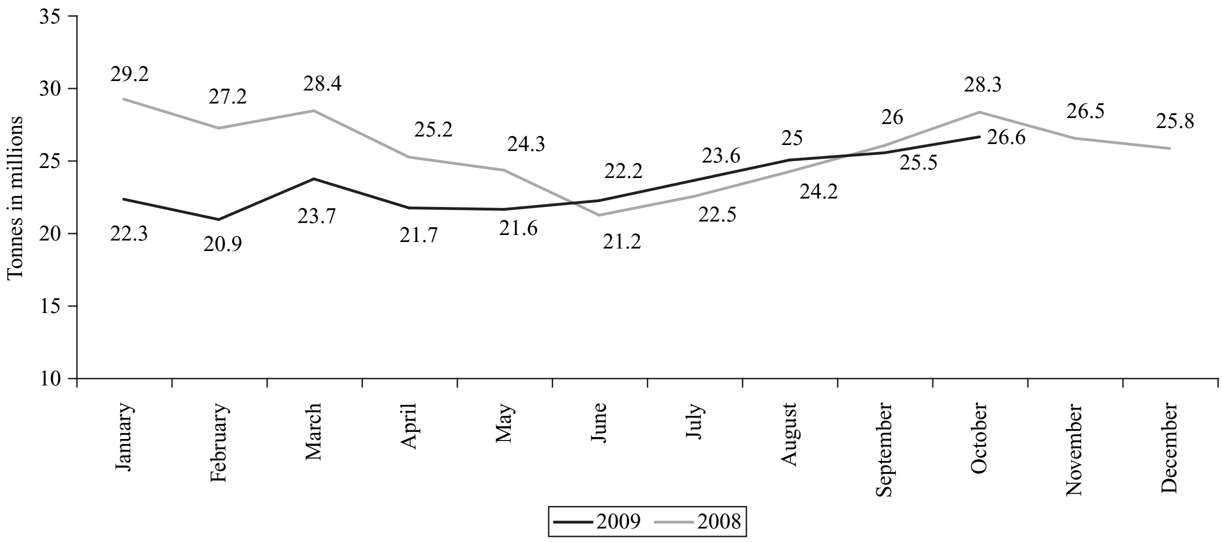
Source: Rosstat

Russian coal transportation—monthly volumes (2008-2009)

The trend in transportation volumes of coal in Russia has improved since May of 2009, driven by increased demand for coking coal due to positive trends in the metallurgical industry and increased demand for thermal coal as electricity demand has recovered (see "—Ferrous metals, scrap metal and iron ore—Overview of key trends in the metallurgical industry in Russia"). Transportation volumes of thermal coal were also impacted by an accident at the Sayano-Shushenskaya hydroelectric power station in August 2009, which led to an increase in capacity utilisation of coal-fuelled generating companies in Siberia.

The chart below sets forth the monthly rail transportation volumes for coal (coking and thermal) in millions of tonnes for 2008 and the first ten months of 2009.

Monthly rail transportation volumes for coal



Source: Rosstat

Construction materials

Overview of key recent trends in the construction industry in Russia

Production of key construction materials (including cement and crushed stone) in Russia has historically been driven principally by demand in the domestic construction and infrastructure sectors, which prior to the economic downturn had been supported by increases in personal income, better availability of mortgages and declining mortgage rates and government spending. The table below sets out historical production volumes of cement, one of the key construction materials cargoes in Russia from 2000 through the first nine months of 2009.

Russian production volumes of cement (2000—September 2009)

	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
	(tonnes in millions)				
Cement	32	55	60	54	34

Source: Rosstat

Historical rail transportation volumes of construction materials (2000-September 2009)

Vigorous domestic growth in the construction industry drove increases in rail transportation volumes of key construction materials, which increased from 230.3 million tonnes in 2000 to 299.9 million tonnes in 2007. The decline in construction levels was caused primarily by the dislocation of the global financial markets, which impacted Russian developers who were significantly leveraged, as well as by falling property prices. The lack of funding for the completion of existing projects and launch of new projects led to a significant slowdown in construction activity and a corresponding slowdown in transportation of construction materials. The global financial crisis also caused a sharp reduction in mortgage availability, which contributed to decreases in demand for new housing. The table below sets out the rail transportation volumes for construction materials in Russia for selected years from 2000 through the first nine months of 2009.

Russian construction materials rail transportation (2000—September 2009)

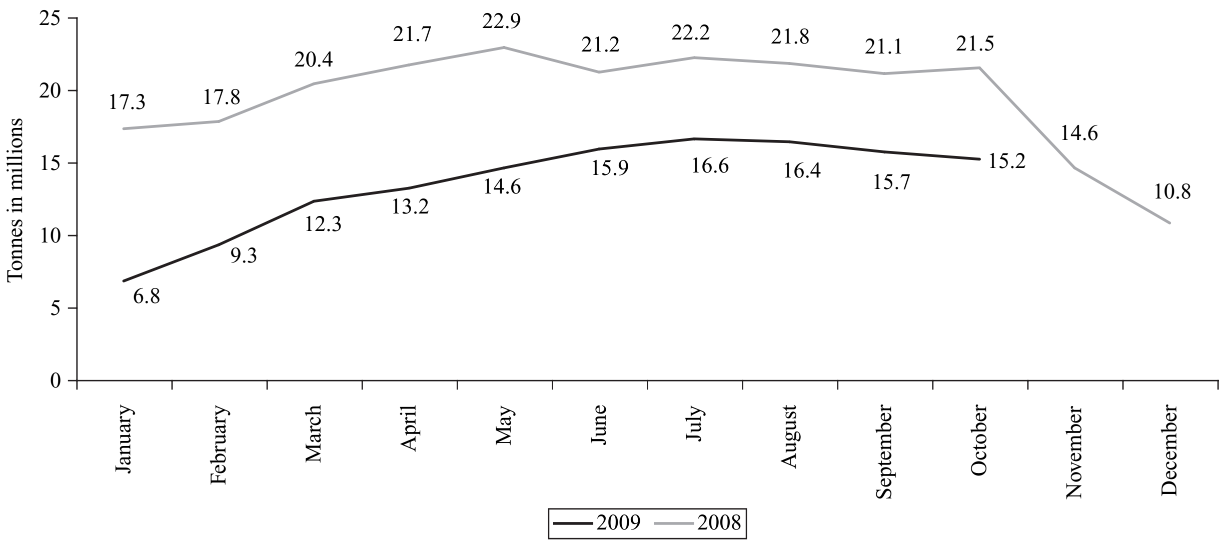
	Years ended 31 December				Nine months ended 30 September
	2000	2006	2007	2008	2009
	(tonnes in millions)				
Construction materials (including cement)	230.3	290.0	299.9	233.3	120.8

Source: Rosstat

The negative trend in transportation volumes of construction materials in Russia has slowed somewhat during the nine months ended 30 September 2009. Key reasons for recovery in the construction industry include government spending on infrastructure, along with the fact that Russian state-owned banks have started to refinance and provide additional debt to developers and construction companies, which have helped stabilise the market.

The chart below sets forth the monthly rail transportation volumes for construction materials (including cement) in millions of tonnes for 2008 and the first ten months of 2009.

Monthly rail transportation volumes for construction materials



Source: Rosstat

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 owned rolling stock, after Russian Railways and its subsidiaries. The Group provides (i) freight rail transportation, (ii) railcar leasing, and (iii) certain ancillary services in Russia, Kazakhstan and Ukraine.

The Group provides services to more than 450 customers, and its key freight rail transportation customers include member companies of a number of large Russian industrial groups active in the metals and mining, oil products and oil, and other major sectors of the Russian economy, including MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel and Mechel, as well as their affiliates and suppliers.

The core elements of the Group's business model are freight rail transportation which accounted for 83.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009, complemented by its railcar leasing business which accounted for 16.5 per cent. of the Group's Adjusted Revenue in the nine months ended 30 September 2009.

The Group's extensive rolling stock fleet comprises several types of railcars, including gondola (open top) cars, rail tank cars, other cars and locomotives, with a focus on gondola (open top) cars and rail tank cars.

The Group's freight rail transportation business is based on (a) an extensive, balanced rolling stock fleet, which enables the Group to cater to the high-volume transportation requirements of key industrial customers, to service a number of industries and to react rapidly to changing sector demand and the changing economic environment; (b) utilisation of advanced destination management and route optimisation, which reduces empty runs of rolling stock and maximises the efficient commercial utilisation of the Group's rolling stock; and (c) a strong customer focus and sophisticated logistics know-how, which enables the Group to provide complex rail transportation and logistics solutions tailored to customers' needs. As at 30 September 2009, 80 per cent. of Globaltrans' total fleet or 20,781 units of rolling stock (mostly gondola cars) were engaged in the freight rail transportation business.

The Group's freight rail turnover amounted to 61.7 billion tonnes-km in 2008 with 33.3 million tonnes of freight transported and 47.6 billion tonnes-km in the nine months ended 30 September 2009 with 24.4 million tonnes of freight transported. The key market sectors for Globaltrans are transportation of metallurgical cargoes (ferrous metals, scrap metals and iron ore), oil products and oil, and coal. Based on Rosstat data and the Group's management accounts, the market share of Globaltrans amounted to 6.5 per cent. of the total volume of metallurgical cargoes (ferrous metal, scrap metals, and iron ore), 4.1 per cent. of the total volume of oil products and oil, and 2.2 per cent. of the total volume of coal (thermal and coking) transported in Russia in the nine months ended 30 September 2009.

The second major service provided by Globaltrans is leasing of railcars to third parties. In 2008, the Group significantly expanded the size of its leasing business through the acquisition of stakes in two leasing companies, Spacecom and Intopex. As at 30 September 2009, 20 per cent. of Globaltrans' total fleet or 5,279 units of rolling stock (mostly rail tank cars) were leased out to third parties.

HISTORY, DEVELOPMENT AND GROUP STRUCTURE

History and development

Globaltrans was established during the early stages of the Reform in the early 2000s. It began life as two private companies, Sevtekhnotrans and New Forwarding Company, engaged in the freight rail transportation business. In a few years, it has grown to become Russia's largest privately owned freight rail operator, second only to Russian Railways and its subsidiaries by fleet size. It is the first private freight rail company with operations focusing on Russia to be publicly listed.

New Forwarding Company was established as a Russian Open Joint Stock Company by entities controlled by EIL in 2003, one of the Company's principal shareholders. In the same year, it received a freight rail carrier licence and began its principal business of providing freight rail transportation services. As the owner of the "Novaya Perevozochnaya Kompaniya" (New Forwarding Company) brand, New Forwarding Company is also 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.

Sevtekhnotrans was established in 2000 as a Russian limited liability company by entities controlled by the current beneficial owners of TIHL and their associates. Until 2004, Sevtekhnotrans was mainly engaged in freight forwarding and rolling stock leasing services.

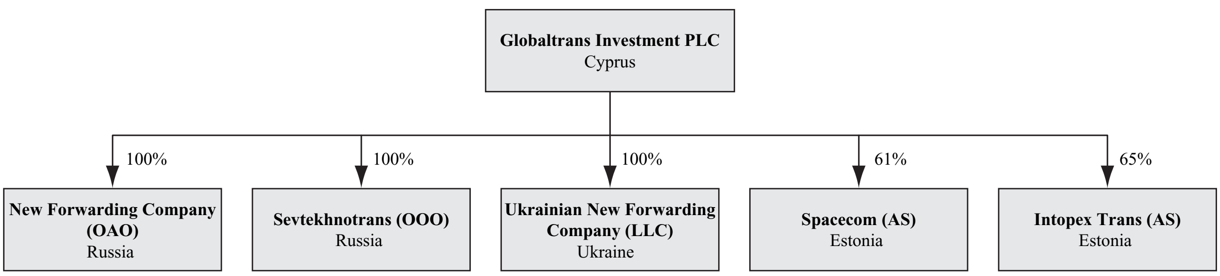
In May 2004, the Company was established in Cyprus by EIL and a company controlled by the beneficial owners of TIHL. In July 2004, the original founding entities of New Forwarding Company transferred their respective shares in New Forwarding Company to the Company. In June 2007, the shares of Sevtekhnotrans were also transferred to the Company.

In March 2008 following a special resolution approved by the shareholders, the Company was converted into a public limited liability company. In May 2008, the GDRs were listed on the Main Market of the London Stock Exchange with a free-float of approximately 30 per cent. The listing and initial public offering (the ***IPO***) consisted of both primary and secondary components and comprised an offering of GDRs by Globaltrans and TIHL and EIL to international institutional investors outside of the United States and the Russian Federation, and to qualified institutional buyers in the United States. The IPO generated approximately USD 224.7 million in gross proceeds for Globaltrans.

In July 2008 the Board of Directors of the Company approved the creation of a wholly owned Ukrainian subsidiary. The subsidiary was registered in June 2008 to provide competitive, customer-focused transportation services, primarily to large companies operating in the steel, iron ore and coking coal sectors, and to minimise empty runs by sourcing cargoes for gondola (open top) cars returning from delivering cargoes to Ukrainian destinations. The Group was not engaged in any significant business operations in Ukraine in 2008 nor in the nine months ended 30 September 2009.

In December 2008, Globaltrans acquired 61 per cent. of Spacecom and 65 per cent. of Intopex, two Estonian registered rail tank car leasing companies, from TIHL. The Estonian Subsidiaries provided the Group with an increased presence in the oil products and oil transportation markets in Russia and Kazakhstan, and an increase in the proportion of leasing revenues in the Group's total revenue.

Corporate structure



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 enabled Globaltrans to demonstrate a relatively resilient performance during the economic downturn and 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:

Largest Russian private freight rail operator

The Group operates the largest rolling stock fleet among private freight rail operators in Russia, totalling 26,034 railcars, and 26 locomotives as at 30 September 2009. The average age of rolling stock owned and leased under finance leases was 4.8 years as at 30 September 2009. The extensive size of the Group's fleet enables it to service some of the largest Russian rail transportation customers by volume of freight. The Group believes that the relatively young fleet, coupled with the regular maintenance it receives, enables the Group to provide customers with a high level of reliability.

In addition, the large fleet enables the Group to provide a "one-stop-shop" service to its key customers that have production facilities, suppliers and cargo destinations in multiple locations. The Group believes that a large fleet is important because it allows Globaltrans to service some of the largest Russian rail transportation customers, since it offers flexibility to customers by providing that, in case of unexpected requirements, additional railcars are available.

Balanced fleet of rolling stock with focus on gondola (open top) cars and rail tank cars

The Group's fleet includes gondola (open top) cars, which allow the Group to meet diverse customer needs and optimise fleet utilisation across various types of industrial cargo, as well as the more specialised rail tank cars. The backbone of the Group's fleet is represented by general purpose gondola (open top) cars, comprising 14,938 railcars, which accounted for 57 per cent. of the Group's total fleet, as at 30 September 2009. Having a significant proportion of the fleet made up of flexible gondola (open top) cars has enabled the Group to react rapidly to changes in transport requirements for different types of cargoes, and the changing economic environment. For example, in the six months ended 30 June 2009, ferrous metals and coal were the key drivers of the Group's freight rail turnover as demand for rail transportation of scrap metals, iron ore and construction materials was depressed. The flexibility provided by the Group's gondola (open top) cars enabled it to adapt to this trend and the Group experienced a substantially lower decrease in freight rail turnover (4 per cent.) as compared to the overall Russian market (22 per cent.) during that period.

As at 30 September 2009, 40 per cent. of the Group's total fleet, or 10,495 railcars, were represented by rail tank cars. Rail tank cars provide stability to the Group's business through exposure to the oil products and oil transportation sector which benefited from relative stability in volumes during the economic downturn as demonstrated by the fact that overall Russia rail transportation volumes of oil products and oil decreased only by 2.8 per cent. in the nine months ended 30 September 2009 compared to the same period of 2008.

As at 30 September 2009, 90 per cent. of the Group's total fleet, or 23,508 units of rolling stock, were owned or leased under finance leases. The balance of the fleet, or 2,552 units of rolling stock, was leased under operating leases. The Group uses operating leasing to enable it to react quickly to changes in demand for its services without significant capital expenditure.

Advanced route optimisation systems and focus on higher revenue generating cargoes

The Group manages the dispatching and routing of its rolling stock to make its utilisation commercially efficient on outbound as well as on 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, these destinations. This matching thereby reduces costly "empty runs" of the Group's gondola (open top) cars on return journeys and increases the proportion of time for which cars are generating revenue. The reduction of empty runs is one of the major drivers of the Group's profitability as Empty Run Costs constitute one of the key cost items of the Group. Route optimisation is made possible by the Group's sophisticated centralised logistics function, its geographical 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 Group's growing number of other customers with transport needs that are complementary to the needs of the Group's key industrial customers. The Group believes that advanced route optimisation substantially enhances the Group's competitive position and profitability.

In recent years, the Group has successfully targeted certain higher price transportation market segments such as the transportation of metallurgical cargoes (ferrous metals and scrap metals) and oil products and oil. Of the three classes of rail transportation tariffs, the highest revenue generating class, Class 3, accounted for 62 per cent. of the Group's Net Revenue from Operation of Rolling Stock in the nine months ended 30 September 2009, while Class 2 accounted for 20 per cent., and Class 1 for 17 per cent. For the same period, Class 3 was mostly composed of ferrous metals and scrap metals, while Class 2 was primarily the transportation of oil products and oil. See "Russian Rail Transportation Market—Pricing in the Russian Railcar Sector—Rail Transportation Services Tariffs." The increase in share of Class 1 cargo resulted from growth in transportation volumes of coal which helped the Group maintain relatively stable transportation volumes during the economic downturn.

Strong customer base and customer-driven relationships

While the Group has over 450 customers, approximately 69 per cent. of its Net Revenue from Operation of Rolling Stock in 2008 and approximately 74 per cent. in the nine months ended 30 September 2009 was derived from servicing the transportation needs of customers belonging to eight key industrial groups operating in the metals and mining and oil products and oil sectors, MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel and Mechel, as well as suppliers of the Group's key customers in the metal and mining sector. Most of the Group's key customers have production facilities, sources of supply and production delivery destinations in multiple geographic locations. Their cargo transportation patterns are characterised by high volumes and a need for regular and timely delivery of raw materials and shipments of finished production. A close working relationship with these key customers and an in-depth understanding of their production processes and transportation needs allows the Group to use its advanced route optimisation methods to provide frequent and reliable transportation services and to respond to rapidly changing customer needs. Globaltrans also works with a wide range of other corporate customers, including small and medium-sized enterprises. The presence of these other corporate customers among the overall customer base also supports expansion into new cargo types, as well as enhancing destination management and route optimisation processes, and enables the Group to benefit from the economic development of the Russian regions.

Experienced management team

The Group's core management team has 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 position as a leading freight rail operator in Russia by capturing identified opportunities and responding to strategic imperatives, leveraging its scalable business model to further improve operational efficiency, the balance of business, and financial performance. The Group intends to achieve this objective by pursuing a strategy involving the following key elements:

(a) Return oriented expansion of its fleet

(b) Maintaining a balanced railcar fleet

(c) Continuing to improve operating efficiency

Return oriented fleet expansion and growth in transportation volumes

The Group intends to increase the size of its railcar fleet when management believes that conditions are favourable to do so; in particular, during periods when future demand for rail transportation by particular types of railcars is expected to be favourable and when those railcars can be acquired at reasonable prices. The Group believes that opportunities are likely to exist to create shareholder value through capital expenditure or acquisitions, given the expected dynamics of the Russian railway transportation market and the railcar markets, and, in addition, that scale brings certain benefits to the Group's operations in terms of higher efficiency through increased ability to optimise routes and railcar utilisation as well as reduced overhead per wagon. The Group will continue to monitor conditions in order to identify specific opportunities, using, among other methods, analysis of expected return on capital employed.

The Company intends to use part of the proceeds of the Offering to acquire additional gondola (open top) cars, and has already ordered 2,000 gondola (open top) for delivery in 2009 and in the first quarter of 2010. Management believes that low prices for new gondola (open top) cars and a favourable outlook for gondola (open top) transportation make investments in this type of railcar attractive. Demand for transportation services has already strongly recovered in 2009. See "Russian Rail Transportation Market". The Group believes that in the foreseeable future, growth in demand for products carried by gondola (open top) cars in Russia will track the overall growth of the Russian economy, and, if current trends continue, may result in a significant increase in demand for transport using gondola (open top) cars. At the same time, a large part of the fleets of the largest market players in Russia, Russian Railways and Freight One, are nearing the end of their useful life. The Group believes that the ageing of the rolling stock fleet of Russian Railways and its subsidiaries, and as such the expected need for these entities to engage in large-scale railcar scrapping in the next few years, could provide a substantial opportunity for the Group to grow and expand its market share in gondola (open top) cars. At the same time, prices for new gondola (open top) cars have declined significantly as demand for new gondola (open top) cars has decreased, reflecting, among other factors, the fact that many market participants have suffered from constrained access to capital.

The table below sets forth the average price for gondola (open top) cars for the years ended 31 December 2006, 2007 and 2008 and for the month ended 31 October 2009, showing a 46 per cent. decrease in the average price from the annual average price in 2008 to the average price for the month of October 2009.

	Year ended 31 December			Month ended 31 October
	2006	2007	2008	2009
	(USD in thousands)			
Average price for gondola (open top) cars	35.8	50.6	78.6	42.4

Source: Gondola prices for 2007, 2008 and October-2009—"Industrial Cargoes" journal. Gondola price for 2006—Company data.

The table below sets forth the Group's Net Revenue from Operation of Rolling Stock per gondola (open top) car for the years ended 31 December 2006, 2007 and 2008 and for the nine months ended 30 September 2009 on an annualised basis.

	Year ended 31 December			Nine months ended 30 September
	2006	2007	2008	2009
				(annualised)
	(USD in thousands)			
Net Revenue from Operation of Rolling Stock per gondola (open top) car	10.8	14.5	19.2	14.3

In addition, the Group intends to carefully consider the advantages and disadvantages of potential acquisitions of other freight rail companies or of such companies' rolling stock assets, with particular emphasis placed on the companies' rolling stock type and age, the potential for operational synergies, the potential for a reduction in the volatility of overall Group earnings, the acquisition of additional client relationships and the ability of a potential acquisition to contribute to an increase in the Group's market share or competitive position in a particular segment.

The Group intends to use its unique ability, as the only listed company in the Russian rail transportation sector, to access institutional equity markets, and debt, to finance expansion as appropriate.

Maintaining a balanced railcar fleet

During recent years, different segments of the Russian rail transportation market have been driven by various dynamics. Whereas the oil products and oil transportation market has been very stable, the market for goods carried in gondola (open top) cars has shown strong growth but also some cyclicality. See "Russian Rail Transportation Market".

Management believes that, while the Group has historically been able to adjust the operations of the Group's gondola fleet by migrating to other cargo segments in order to mitigate much of the impact of change in demand for the transportation of particular cargoes, the Group's balanced railcar fleet of rail tank cars and gondola (open top) cars provides crucial diversification and, as such, protection against market downturns. In addition, management believes that diversification will improve the Group's ability to obtain debt financing on attractive terms.

Based on these beliefs, the Group intends both to expand its presence in the more stable oil products and oil transportation segment, and to position itself to benefit from an economic rebound by increasing its fleet of gondola (open top) cars.

The Group intends to continue its current policy of leasing a portion of its rolling stock out to third parties, in order to benefit from the lower volatility and typically longer contract terms of the leasing business, as well as to lease in wagons as appropriate to meet specific demand opportunities.

Continuing to improve operational efficiency

The Group is currently focused on increasing the operational efficiency of its rolling stock fleet, which the Group believes to be a major driver of its profitability. In particular, the Group intends to continue to apply and enhance its existing route optimisation techniques, to increase the use of block trains, and take measures to reduce "dwell time" and optimise the maintenance and repair of its rolling stock, with the aim of further improving efficiency.

Destination management and route optimisation will remain at the forefront of the Group's measures to promote efficiency. The Group plans to achieve this by encouraging ongoing development and improvement in the use of its route optimisation software and by creating new efficient "route loops". These efforts are expected to afford the Group the opportunity to capitalise on an increase in demand for the Group's services from corporate customers, including small and medium-sized enterprises, increased imports to Russia as well as recovery of the country's construction industry, to reduce the "empty runs" of gondola (open top) cars. Management also believes expansion of the Group's railcar fleet has the potential to improve the efficiency of its destination management and route optimisation, as a larger fleet operating over a complex route network offers more options for optimisation than a smaller fleet operating over a smaller network.

In addition, the Group intends to work with its existing customers with a view to increasing the use of "block trains" on high-cargo volume routes. Management believes that operation of "block trains" offers benefits in terms of higher utilisation of railcars and also allows the Group to provide faster transportation services to customers at a lower price.

The Group intends to optimise repair and maintenance of its rolling stock fleet by repairing and maintaining the Group's fleet based on mileage travelled (not on fleet age), which the Group believes could reduce the amount of repair and maintenance works required by the Group's fleet.

Expansion of the Group's rolling stock fleet also has the potential to improve operational efficiency, as an expansion of the Group's fleet does not entail a significant increase in overheard costs, allowing the Group's overhead to be divided between a larger number of railcars and, while this will not be a key driver of the Group's strategy of fleet expansion, it will continue to provide the Group with a cost advantage over smaller competitors.

SERVICES

Freight rail transportation

Operation of rolling stock, or freight rail transportation, is the Group's core service offering. As at 30 September 2009, a total of 20,781 units of rolling stock, or 80 per cent. of the Group's total fleet, were engaged in freight rail transportation, and the Group had a total freight rail turnover of 47.6 billion tonnes-km and transported 24.4 million tonnes of freight in the nine months ended 30 September 2009. In 2008, the Group's freight rail turnover amounted to 61.7 billion tonnes-km with 33.3 million tonnes transported. The Group's extensive transportation network covers every major industrial region in Russia and part of Ukraine, with a regional network encompassing ten branches and seven representative offices.

Globaltrans' control centre has access to the IT systems of Russian Railways and direct communications with railway centres throughout Russia. The IT systems' management of rolling stock, modern tracking technologies and permanent data exchange all make it possible to monitor and optimise movement of cargo on a real-time basis.

As an owner and lessee of rolling stock, the Group sells freight transportation services to its clients on an unregulated basis, though in certain sectors, depending on the degree of dominance of Russian Railways in the sector, the regulated tariff serves as a benchmark for private operators. Key clients of Globaltrans include companies from a number of large Russian blue-chip industrial groups and companies active in the oil, metals, mining, coal and other sectors of the Russian economy. Longstanding client relationships, superior quality of service and an experienced management team have enabled Globaltrans to significantly outperform the overall Russian freight rail transportation market in the six months ended 30 June 2009, as compared to the same period the previous year, demonstrating only a 4 per cent. decline in freight rail turnover compared to a 22 per cent. decline in the overall Russian freight rail market, according to Rosstat data.

The majority of the Group's operating rolling stock are gondola (open top) cars and rail tank cars, accounting for approximately 57 per cent. and 40 per cent. of the Group's total fleet, respectively, as at 30 September 2009. According to the industry publication, Russian Railways-Partner, the Group is the largest private owner of gondola (open top) cars and the third largest private owner of rail tank cars in Russia, as at 31 December 2008.

Operation of general-purpose gondola (open top) cars

General-purpose gondola (open top) cars are used to transport a variety of cargo, including ferrous metals, coal and construction materials. Efficient management of gondola (open top) cars is a cornerstone of the Group's business model and drives the Group's profitability and competitive advantage. At the end of each trip, after the customers' cargo has been transported to its destination, the empty railcar needs to be routed to the next destination for new loading. On such empty journeys, the tariff for usage of railway infrastructure and locomotive traction becomes a direct cost for the Group. To reduce the number of empty journeys, 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 the rolling stock returns to its point of origin. The matching of routes and destinations creates efficient "route loops", in which the Group's rolling stock carries cargo on each leg of the journey, thus enhancing the commercial utilisation of the Group's rolling stock fleet and driving revenue and margin. The "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 believes that its ability to configure demanding logistics solutions via advanced destination management has made attractive opportunities available through the provision of transportation of services to major metals and mining groups.

Capitalising on the presence of members of major Russian metals and mining groups, such as MMK, Evraz, Severstal, Ural Steel and Mechel, among its key customers, the Group has gained a significant market share in transportation of key metallurgical cargoes. In the nine months ended 30 September 2009, the Group's transportation volumes of metallurgical cargoes (ferrous metals, scrap metals and iron ore) accounted for 6.5 per cent. of the overall Russian market while the Group's share of the overall transportation volumes of ferrous metals totaled 14.9 per cent.

The table below sets forth the Group's freight rail turnover and transportation volumes by types of cargo for the nine months ended 30 September 2009.

	Nine months ended 30 September 2009	
	Freight Rail Turnover	Transportation Volumes
	(tonnes-km in billions)	(tonnes in millions)
Metallurgical cargoes		
Ferrous metal	25.4	7.0
Scrap metal	0.9	0.9
Iron ore	3.1	1.5
Total metallurgical cargoes	**29.3**	**9.5**
Oil products and oil	**9.3**	**7.0**
Construction materials		
Construction materials—crushed stone	0.5	0.6
Construction materials—cement	0.5	0.5
Construction materials—other	0.8	0.6
Total construction materials	**1.8**	**1.7**
Coal (coking and thermal coal)	**5.7**	**4.6**
Other	**1.5**	**1.7**
Total	**47.6**	**24.4**

Efficiency of operations of general-purpose gondola (open top) cars

In order to assess the efficiency of the Group's route network, management monitors the Empty Run ratio for gondola (open tops) cars (a management accounts metric calculated as the total in kilometres travelled empty divided by kilometres travelled loaded by the rolling stock operated by Globaltrans (excluding fleet leased out) in the reporting period). Empty trips are only applicable to rolling stock operated, and do not include rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial use, or rolling stock leased out.

According to the Group's management accounts, the Group managed to decrease the Empty Run ratio for gondola (open top) cars from 36 per cent. in the year ended 31 December 2006 to 21 per cent. in the year ended 31 December 2007 as a result of expanded geographic coverage and development of new customer relationships in addition to the Group's key customers. The highest level operating efficiency was achieved by the Group in the six months ending 30 June 2008, with the Empty Run ratio for gondola (open top) cars improving to 19 per cent. The changed economic circumstances in the fourth quarter of 2008, which resulted in weakening demand from certain industries, and the increased exposure to coal transportation, which provides minimal opportunities to optimise return routes, raised the Empty Run ratio for gondola (open top) cars to 32 per cent. for the year ended 31 December 2008 and to 54 per cent. for the six months ended 30 June 2009.

The deterioration in operational efficiency was primarily due to (i) a reduction in freight volumes shipped for certain corporate customers, including certain small and medium-sized enterprises, as their businesses and abilities to make advance payments were affected by the economic downturn; (ii) reduced inbound traffic to metallurgical producers (particularly shipments of scrap metals and coking coal) due to a decrease in the production capacities of those metallurgical producers; (iii) a significant decline in construction activity in Russia; and (iv) decreased imports to Russia, making it more difficult for the Group to find return cargo from ports. In the third quarter of 2009, a gradual economic recovery led to a steady revival of inbound traffic to the key metallurgical clients and an increase in activity by corporate customers, including certain small and medium sized enterprises, which in turn drove the Empty Run ratio for gondola (open top) cars to improve slightly in the third quarter of 2009, decreasing to 40 per cent., resulting in an Empty Run ratio of 49 per cent. for the nine months ended 30 September 2009.

Operation of rail tank cars

The Group believes that its presence in the oil products and oil rail transportation market provide certain advantages, including sustainability of demand and high revenue generation. See, "Russian Rail Transportation Market". The Group has a stable market position in the transportation of oil products and oil due to its sizeable rolling stock of rail tank cars, including steam jacket rail tank cars, which are more efficient during winter months in certain regions of Russia, and liquified petroleum gas (***LPG***) rail tank cars. The Group also has long-standing relationships with its major clients in the oil products and oil sector in Russia. Destination management and route optimisation is primarily applicable to general-purpose rolling stock. In the case of specialised rolling stock, such as rail tank cars, optimisation opportunities are limited by the specific nature of rail tank car logistic patterns.

Use of owned locomotives and block trains

Another important element in the Group's freight rail transportation business 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 increasing railcar utilisation and overall efficiency. Although most of the Group's locomotives are leased out to third party operators as of 30 September 2009, on some routes, the Group uses its own locomotives for the "block trains", which allow it to provide a more competitive service to clients by offering better delivery times and turnover of railcars and greater reliability in terms of providing railcars for on-time dispatching.

In anticipation of the possible liberalisation of the locomotive services sector, the Group has obtained a carrier licence.

Railcar leasing

The second major service offered by Globaltrans is railcar leasing. In 2008 the Group significantly expanded its leasing business by increasing the number of rolling stock leased-out to 5,972 railcars (or approximately 22 per cent. of the Group's total rolling stock owned and leased under finance and operating leases at the end of 2008) from 1,474 the previous year. The significant increase in number of rolling stock leased-out came from the acquisition of stakes in the leasing companies Spacecom and Intopex, the combined fleet of which amounted to 4,152 rail tank cars and 8 locomotives along with 128 rail tank cars leased under operating leases. Such a significant expansion of the leasing business enables the Group to complement its freight rail transportation services with the more stable railcar leasing business in the challenging economic environment experienced recently. Furthermore, railcar leasing provides stable, mostly US Dollar-denominated cash flows, which allows the Group to improve the balance of its currency exposure. The Group leases out its rolling stock to the transportation markets in Russia, the CIS countries and the Baltics. The Group's key leasing business clients include, among others, PetroKazakhstan Kumkol Resources (Kazakhstan) and CNPC-Aktobemunaigaz (Kazakhstan). As at 30 September 2009, the number of rolling stock leased out decreased compared to the same period in 2008 to 5,279 units of rolling stock, primarily due to the Group's decision to reduce its exposure to the cement-transportation market.

Ancillary services

Globaltrans also offers ancillary services, including freight forwarding and other services. The Group's freight forwarding service involves the shipment of cargo carried by Russian Railways' rolling stock or other third parties' rolling stock.

Customers and Sales

Customer base

The Group's freight rail transportation customers are concentrated among large Russian industrial groups leading in the metals and mining, and oil products and oil sectors of the Russian economy, including MMK, Lukoil, Evraz, Severstal, Rosneft, RITEK, Ural Steel and Mechel. Sales of the Group's services to members of these eight key industrial groups and their suppliers represented approximately 74 per cent. of the Group's Net Revenue from Operation of Rolling Stock in the nine months ended 30 September 2009. While a majority of the Group's revenues are accounted for by a few key customer groups, these key customers have typically maintained a very good record of making timely payment for the Group's services.

This key customer focus is aligned with the Group's focus on route optimisation and on higher-priced cargo categories such as key metallurgical cargoes as well as oil products and oil. 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. In addition, 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 products and oil (required to be carried for the needs of the Group's key customers active in the oil products and oil sector) are among the higher revenue generating cargoes in the current Russian rail transportation market environment. See "—Services—Freight rail transportation".

The table below shows the percentage of Net Revenue from Operation of Rolling Stock generated by the Group from services provided to its key customers and their suppliers in the nine months ended 30 September 2009.

Customer group and its suppliers	Customer's sector	Per cent. of the Group's Net Revenue from Operation of Rolling Stock for the nine months ended 30 September 2009
MMK	Metals and mining	22%
Lukoil	Oil products and oil	20%
Evraz	Metals and mining	19%
Severstal	Metals and mining	6%
Rosneft	Oil products and oil	2%
RITEK[(1)]	Oil products and oil	2%
Ural Steel	Metals and mining	2%
Mechel	Metals and mining	1%
Other	Various	26%
Total		**100%**

(1) Affiliate of Lukoil.

Of the Group's Net Revenue from Operation of Rolling Stock in the year ended 31 December 2008, 31 per cent. was attributable to corporate customers (other than the key customers listed in the table above), including small and medium-sized enterprises. The Group believes that serving these other customers allows the Group to diversify its destinations and routes and reduce empty runs of rolling stock on return journeys. However, as a result of the economic downturn which significantly affected the operations and creditworthiness of certain of the Group's other corporate customers in Russia, the share of these customers decreased to 26 per cent. in the period ended 30 September 2009.

The Group expects that following the revival of economic conditions in Russia, the presence of the Group's other corporate customers among its overall customer base will increase and will support its destination management and route optimisation processes along with the Group's proposed expansion into new cargo types, thus enabling the Group to benefit from economic development in the Russian regions.

Contract and payment terms

In line with industry practice, most customers receive the Group's services on the basis of annual contracts, which are automatically renewed as long as the customer has not requested otherwise. 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.

In the freight rail transportation business, the Group offers its customers three 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; (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; and (c) another "railcar charge only" contract pursuant to which the Group pays the infrastructure and locomotive charges to Russian Railways and recharges the amount to the customer as a reimbursement.

In the railcar leasing business, there are two principal types of lease agreements where the repair and maintenance cost is borne (a) by the Group or (b) by the customer (lessee). The lessee pays for each day of rent, except for the days during which the rolling stock undergoes maintenance and repair under the type of contract where such costs are borne by the Group.

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 arrears a certain number of days following the provision of the relevant service. According to the Group's estimates, in the nine months ended 30 September 2009:

- sales to customers with contracts requiring payment in advance represented 50 per cent. of the Group's total revenue (57 per cent. of which (approximately 30 per cent. of total revenue) were contracts requiring full payment in advance, and the remaining 43 per cent. required payment from 30 to 80 per cent. of the contract price in advance);
- sales to customers with contracts requiring full payment prior to delivery of cargo represented 10 per cent. of the Group's total revenue; and
- sales to customers with contracts requiring no payment in advance represented 40 per cent. of the Group's total revenue. Such customers generally paid 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.

PRICING

General

The Group operates in Russia's partially-liberalised railway transportation market. As an operator and leaser of rolling stock, the Group's pricing is unregulated.

Generally, tariffs which apply to the services provided by Russian Railways are established by the FST. The freight rail transport service tariff includes the following two main components: the infrastructure and locomotive traction tariff and the railcar tariff. While the infrastructure and locomotive traction tariff is set by the FST 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 influenced to an extent by the regulatory environment.

Railcar prices charged by private operators are not regulated. However, in addition to its role as provider of infrastructure services at regulated tariffs, Russian Railways and its subsidiaries remain the largest provider of freight rail transportation and related services. As a result, the regulated freight railcar tariffs charged by Russian Railways often serve as a benchmark for the unregulated prices charged by privately owned freight rail transportation services providers.

Certain subsidiaries of Russian Railways, such as Freight One (and Freight Two, once it is formed) operate in an unregulated pricing environment.

Freight rail transportation services pricing

The calculation of the price of freight railcar services is a complex function of a number of factors including, but not limited to, route configuration of the Group, railcar availability in specific locations, the railcar tariffs of Russian Railways, the class of cargo carried, the type of railcar used and the distance carried. As a result, the Group's price may be at a mark-up or discount to the railcar tariffs of Russian Railways. One of the key factors for private operators in determining pricing of freight railcar services is the possibility of finding cargo for a substantial part of the return journey in order to minimise payment of the infrastructure and locomotives traction tariffs to Russian Railways for empty trips.

Pricing of customer orders

Pricing of the Group's transportation services is the responsibility of the Group's centralised sales department. Upon the receipt of a request for transportation from a potential customer, or for a monthly adjustment under an annual contract, the sales centre identifies the volume, tariff classification and points of origin and destination and passes this information to the logistics centre. See "—Services" above. The logistics centre determines whether the 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 whether it 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 an 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.

Railcar leasing pricing

The pricing of leasing of rolling stock is unregulated, and as a result all prices are based on market supply and demand. The Group's leased-out fleet is comprised primarily of rail tank cars. Volumes of oil products and oil transported in Russia and Kazakhstan are characterised by a high degree of stability, reflecting low elasticity of supply and demand for these cargoes. The overall rail tank car fleet is also stable. As a result of these factors, pricing for leasing services is characterised by low volatility. There are two principal types of lease agreements with the repair and maintenance cost borne (a) by the Group or (b) by the customer (lessee). The lessee pays for each day of rent, except for the days during which the rolling stock undergoes maintenance and repair under the contract type where those costs are borne by the Group.

EQUIPMENT

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

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 30 September 2009.

Units	Leased	Owned(1)	Total number
Gondola (open top) cars	1,848	13,090	14,938
Rail tank cars(2)	702	9,793	10,495
Other railcars(3)	—	601	601
Locomotives	2	24	26
Total	**2,552**	**23,508**	**26,060**

(1) Includes railcars owned and leased under finance leases.

(2) Rail tank cars include steam jacket rail tank cars, regular rail tank cars and LPG rail tank cars.

(3) Includes 120 owned flat cars and 481 owned hopper cars.

As at 30 September 2009, the Group's total fleet numbered 26,060 units of rolling stock, of which 23,508 were either owned by the Group or leased from third parties under finance leases, and 2,552 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 4.8 years as at 30 September 2009.

The majority of the Group's fleet of rolling stock is 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 30 September 2009, gondola (open top) cars accounted for approximately 57 per cent. of the Group's total fleet, or 14,938 railcars.

The second largest group of railcars in the Group's fleet is rail tank cars, utilised predominantly for transportation of oil products and oil. As at 30 September 2009, rail tank cars accounted for approximately 40 per cent. of the Group's total fleet, or 10,495 railcars. Approximately 13 per cent. of the Group's rail tank car fleet is steam jacket rail tank cars, which enables faster loading and unloading times of oil products and oil during winter months, thus improving fleet utilisation. The Group's fleet of rail tank cars also includes 270 LPG rail tank cars.

Other railcars include 481 hopper cars as at 30 September 2009 (1,001 as at 30 June 2009), which the Group predominantly utilises for transportation of cement. The decline in the number of hopper cars was driven by the Group's decision to significantly decrease its exposure to the cement transportation market.

As at 30 September 2009, approximately 90 per cent. of the Group's rolling stock fleet, or 23,508 units of rolling stock were owned or leased under finance leases with the remaining 10 per cent., or 2,552 units of rolling stock leased from third parties under operating leases. Globaltrans relies on operating leasing of rolling stock from third parties as a reliable way to enable it to quickly react to changes in demand for freight rail transportation services without significant capital expenditure.

The Group's fleet of locomotives as of 30 September 2009 consisted of 26 units. The Group's locomotives are primarily leased-out to third parties, with some being operated by the Group on routes of stable demand to allow quicker turnover of the fleet and develop expertise in the sector.

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 acquire 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 Ukrzalisnitsa (Ukrainian Railways).

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 rigorous regular repair and maintenance as prescribed by the applicable rules and regulations. The Group applies strict standards to ensure its fleet is well maintained and repaired. As at 30 September 2009, the average age of the Group's rolling stock owned or leased by the Group from third parties under finance leases, was 4.8 years.

The Group's maintenance and repair work falls into two main categories: (i) scheduled repairs which are carried out according to the standards and regulations set by Russian Railways and the Ministry of Transport of the Russian Federation; and (ii) unscheduled repairs which are carried out according to the condition of the railcars, which are inspected on a continuous basis at loading and unloading or at the sorting stations.

(i) Scheduled repairs can be carried out on the basis of either the period of operation or the mileage of operation. According to current regulation, "depot repairs" are performed two to three years after construction, and thereafter once a year with the exception of "post-capital repairs", which take place two years after a "capital repair"; and "capital repairs" which take place 10 to 13 years after construction and 7 to 12 years after a "capital repair". In 2008 the Group commenced a gradual transition from scheduling repairs on the basis of the period of operation to scheduling on the basis of the mileage of operation, which the Group expects will reduce the number of depot repairs required each year.

(ii) Unscheduled repairs are driven by the technical condition of the railcar and are directly related to the term and intensity of operation. According to the Group's estimates "current repairs" are performed every 18 to 24 months and "capital repairs or replacement of wheel pairs" are performed every seven to nine years.

In addition, the Group's railcars receive routine technical inspection and minor repair at repair shops throughout the Russian Railways network.

In the nine months ended 30 September 2009, the Group's costs associated with repair and maintenance amounted to USD 28.4 million. The Group expects its repair and maintenance costs to increase as a result of expansion and ageing of the Group's fleet.

As at 30 September 2009, the Group had maintenance and repair services contracts with 178 rolling stock repair depots, which are technical facilities that provide scheduled maintenance and emergency and capital repair, and rolling stock repair shops, which are smaller units providing routine inspection and minor repair. The Group primarily uses repair facilities owned by Russian Railways, but it also has 21 contracts with privately-owned depots as of 30 September 2009. The Group monitors the maintenance schedules for each railcar using the *MC—Slezhenie* system, which 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 railcar 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. While Russian Railways together with its subsidiaries 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 has grown considerably since the commencement of the reform. The share of privately owned rolling stock in the Russian freight rail market increased from 27 per cent. in 2003 to 39 per cent. in 2008, according to Russian Railways. Notwithstanding the large total number of private operators, market share remains significantly concentrated in the hands of a few large players. The top 10 Russian private freight rail operators account for approximately 40 per cent. of the whole private fleet, while the top 20 such operators account for approximately 53 per cent. of the private fleet at 31 December 2008. Further growth of the largest competitors, along with increased competition, is expected to lead to further consolidation, and more of the smaller players are likely to leave the market as larger operators continue to expand.

Key market participants include the Group and other independent operators as well as a number of "captive" freight rail operators owned by large Russian industrial groups.

The table below sets out the railcar fleets of the 10 largest private freight rail transport operators.

Top 10 private operators of railcars (2008)

		Railcars operated as at 31 December 2008
1.	Globaltrans	26,940
2.	Gazpromtrans	21,638
3.	Transoil	17,000
4.	Transgarant	16,376
5.	UTS	15,050
6.	DVTG (Far Eastern Transport Group)	14,196
7.	Sibur-Trans	13,237
8.	Novotrans	12,000
9.	Evrosib-SPb	11,700
10.	BTS	9,577

Source: Russian Railways-Partner industry journal

The following table sets forth the Group's respective market share of the overall Russian transportation volume by key cargo types for the nine months ended 30 September 2009.

Cargo type	The Group's market share
Total Russian transportation volume	**3.0%**
Metallurgical cargoes	6.5%
Including:	
Ferrous metal	14.9%
Scrap metal	8.1%
Iron ore	1.7%
Oil products and oil	4.1%
Coal (coking and thermal)	2.2%

Source: based on Rosstat data

Because of 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 geographical coverage extending to every major industrial region in Russia, as well as certain regions in Ukraine.

Russian Railways is still the dominant freight rail transportation enterprise in Russia and one of the largest fleet owners. The physical infrastructure and almost all of the locomotives in Russia are owned by Russian Railways. Russian Railways, together with its wholly-owned subsidiary, Freight One, are the leading market players in certain freight rail transportation product categories.

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. The number of rolling stock operated by Freight One has increased over time, and Freight One's increasing presence in the market has added to the competitive pressures on the Group nationwide and across the relevant cargoes.

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 Group's operations are dependent on 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 requirements.

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 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 30 September 2009, 31 December 2008 and 31 December 2007.

	As at 30 September	As at 31 December	
Department	**2009**	**2008**	**2007[3]**
Administrative[1]	215	211	174
Operations[2]	320	339	317
Total	**535**	**550**	**491**

(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.

(3) The number of employees as at the end of 2007, excluding Spacecom and Intopex.

Source: The Group's management accounts (cannot be directly derived from the Consolidated Financial Statements)

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. The existing legal liability regime attaches all third party liability to the railway carrier company (Russian Railways is the only railway carrier) or the owner of the transported cargo but not on the railcar or locomotive operating companies such as the Group. Under the existing regime, 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 is 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, and assumes the functions of a railway carrier company, 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 or locomotives operated by its subsidiaries may sometimes transport environmentally sensitive materials, any spillage or leakage of such materials is the responsibility of Russian Railways as it is the only entity recognised as a railway carrier in Russia and bears the risk of environmental liabilities. The Group believes that it is in compliance with applicable environmental legislation. If Russian Railways successfully lobbies for a change in the current environmental liability regime and operators of cars and locomotives are treated equally with Russian Railways, the Group 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 nine months ended 30 September 2009 or as at or in the years ended 31 December 2008 or 2007.

Intellectual Property and Significant Licences

The Group has registered the following trademarks: (1) two trademarks for "*Novaya Perevozochnaya 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; (2) six trademarks for Globaltrans with the Registrar of Trademarks Office in Cyprus. These applications were filed on 9 September 2008. Based on these applications, the Group filed an international trademark application at the World Intellectual Property Organisation (WIPO). The countries that the Company designated were: Armenia, Belarus, China, European Community, Georgia, Kyrgyzstan, Moldova, the Russian Federation, Turkmenistan, Ukraine, the United States of America and Uzbekistan. The International Registration number for the Company's trademark is 1008439 dated 28 November 2008.

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

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 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.

In 2004, following a public tender, Spacecom was awarded the right to operate on the infrastructure of Estonian railway, becoming the first operator to compete in the railway transport of cargo in Estonia with AS Eesti Raudtee, the owner of the railway infrastructure. Spacecom provided carrier services in Estonia until the first half of 2008. Provision of such services by Spacecom has led to complex legal disputes regarding fair access to the infrastructure and criminal claims for violation of Estonian competition law. The disputes regarding fair access relate to unpaid invoices, the legality of the infrastructure access fee, compensation for damages caused by abuse of market position through unfair pricing and anticompetitive activity. See "Risk Factors—Adverse determination of pending and potential legal actions involving the Company's subsidiary Spacecom could have a material adverse effect on the Group's business, revenues, cash flows and the price of the GDRs" for further information regarding these legal disputes.

CONTRIBUTION OF BTS

The Company has entered into a contribution and subscription agreement dated as of 30 November 2009 (the ***Contribution and Subscription Agreement***), with TIHL. The Contribution and Subscription Agreement provides for the contribution by TIHL of an effective 50 per cent. economic interest and a majority controlling interest in BTS in exchange for 29,411,764 Ordinary Shares of the Company.

STRATEGIC RATIONALE

The management believes that the Contribution will be a significant step toward achieving its goal of maintaining a balanced railcar fleet by combining gondola (open top) cars exposed to more cyclical growth with rail tank cars exposed to the relatively stable oil products and oil transportation market.

Increased exposure to a stable market

The relevant oil products and oil rail transportation market in Russia and Kazakhstan is highly resilient due to stable production of oil products and extraction of crude oil along with limited opportunities to substitute rail transportation by other means of transport. See "—Business and Financial Information of BTS—Russian Oil Product and Oil Rail Transportation Market". While the acquisition of gondola (open top) cars provides exposure to cyclical growth, the Contribution will increase the Group's exposure to the resilient market of oil products and oil transportation. For the six months ended 30 June 2009 total freight transportation volumes of the Group in the oil products and oil segment amounted to 4.6 million tonnes, as compared to 10.1 million tonnes transported by BTS over the same period.

Sizeable acquisition

BTS as at 30 June 2009 operated 8,289 rail tank cars and 49 locomotives. Following the Contribution the Group will be the largest private owner of rail tank cars in Russia.

Stable business model

Over the last ten years BTS has developed a stable business model with high customer loyalty and efficient operations. BTS has extensive knowledge of production cycles of its key clients and is to a certain extent integrated into their production processes, which strengthens its competitive position. This, combined with its experience of providing block-train compositions with and without its own locomotives, enables it to offer an efficient and reliable service to customers. Resilience of the business model of BTS was evidenced in the recent economic downturn in which BTS was able to preserve its transportation volumes and increase its Adjusted EBITDA margin to 35 per cent. in the first six months of 2009 compared to an Adjusted EBITDA margin of 31 per cent. in the first six months of 2008. BTS services several Russian oil majors including TNK-BP and Gazpromneft. These clients have not historically been significant customers of the Group. The addition of these key clients will enable the Group to further diversify its customer base in the oil products and oil transportation market.

Strengthened financial position

The Contribution will strengthen the Group's capital position through BTS's resilient cash flow and low leverage. BTS's net debt as at 30 June 2009 amounted to USD 19,735 thousand with a net debt/LTM Adjusted EBITDA ratio of 0.2x. BTS's low leverage and strong cash generation will provide the Group with additional leveraging headroom which can be used for the acquisition of the gondola (open top) fleet or other opportunities that may be identified.

STRUCTURE OF THE TRANSACTION

The Contribution will be made by way of a contribution to the Company by TIHL of a 5/9 share of Ingulana Holdings Limited, a Cypriot holding company currently wholly owned by TIHL. This holding company owns a 90 per cent. share of BTS. The holding company was formed for the purposes of the Contribution and does not have any significant liabilities or assets other than its interest in BTS. As a result of the Contribution, the Company will indirectly own a 50 per cent. interest in BTS but will control it by virtue of its controlling majority share of Ingulana Holdings subject to, if and when entered into, the BTS Shareholders Agreement described under "Risk Factors—Risks relating to BTS—Risks relating to potential BTS Shareholder Agreement". TIHL will retain the balance of its interest in the holding company which leaves it with an effective 40 per cent. interest in BTS. The other 10 per cent. share of BTS is owned directly by an unrelated third party, the controlling shareholder of which holds joint venture interests in which TIHL's controlling shareholders also have an interest.

As the Contribution will be from an entity under common control, under the Company's accounting policies, BTS (and its holding company) will be treated as consolidated in the financial statements as at and for the year ended 31 December 2009 under the predecessor basis of accounting. Under this method, the financial statements of the contributed subsidiaries are included in the consolidated financial statements of the Group on the assumption that the Group (in such a composition) was in existence for all periods presented. Accordingly, if the Contribution is made, the Company expects that in its Annual Report and Accounts 2009, the financial results of BTS will be consolidated in the Group's financial statements as at and for the year ended 31 December 2009 and for the comparative period (as at and for the year ended 31 December 2008) will be adjusted to reflect the consolidation of BTS.

For purposes of the Contribution, the net assets attributable to participants in BTS have been valued by the parties at USD 500 million, and the share to be contributed at USD 250 million. Such valuation will be confirmed in accordance with the requirements of Cypriot law. Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc have provided fairness opinions to the Board of Directors with regard to the fairness of the consideration to be paid by the Company in connection with the Contribution from a financial point of view as at the date of the opinions. The Board of Directors has approved the contribution by the vote of the disinterested Directors.

The Contribution and Subscription Agreement provides that as consideration for the Contribution, the Company will issue to TIHL such number of Ordinary Shares as is determined by dividing USD 250 million by the offer price for the GDRs in the Offering. The Contribution will take place simultaneously with the completion of the Offering and is conditional upon completion of the Offering. TIHL has advised the Company that it proposes to sell in the Offering such number of Ordinary Shares in the Offering in GDR form as will result in its beneficially owning, following the Contribution and the Offering (and assuming exercise of the over-allotment option in full), 50.1 per cent. of the Company's issued Ordinary Shares.

The Contribution and Subscription Agreement also requires the Company to pay over to TIHL an amount equal to any dividends or distributions declared prior to the date of the Contribution and Subscription Agreement. In October, BTS declared a dividend of RUB 1,500,000 thousand to its participants. Of this amount, RUB 750,000 thousand remains unpaid.

For additional details concerning the Contribution and Subscription Agreement, see "Material Contracts and Related Party Transactions".

BUSINESS AND FINANCIAL INFORMATION OF BTS

OVERVIEW

BTS is one of the leading private Russian railway transportation services operators, specialising in shipping oil products and oil for Russian oil majors and other customers. As of 30 June 2009, it operated 6,581 owned and 2,461 leased rail tank cars and 34 owned and 15 leased locomotives. BTS's Net Revenue from Operation of Rolling Stock for the six months ended 30 June 2009 and 2008 was USD 146,491 thousand and USD 164,956 thousand, respectively, and for the years ended 31 December 2008 and 2007 was USD 327,844 thousand and USD 250,451 thousand, respectively. Its Adjusted EBITDA for the six months ended 30 June 2009 and 2008 was USD 52,250 thousand and USD 53,321 thousand, respectively, and for the years ended 31 December 2008 and 2007 was USD 98,086 thousand and USD 88,884 thousand, respectively.

BTS has achieved a stable position in the oil products and oil transportation market and has strong long-term relationships with its key customers. Following the Contribution, BTS will continue to focus on increasing the quality of its services by further optimisation of routes and improvements in delivery time and railcar turnover.

BUSINESS

BTS was one of the first private operators in the Russian railway transportation industry, having focused on oil products and oil transportation since 2000. It specialises in shipping oil products and oil, most notably fuel oil, diesel and gasoline and provides logistics services for oil product delivery and distribution to shipping terminals. Its operations accounted for approximately 9 per cent. of oil products and oil transportation volumes by rail in Russia in the six-month period ended 30 June 2009.

BTS is one of the top ten railway operators in Russia by number of rail tank cars in operation. The size of its fleet enables BTS to service a substantial share of the market for rail transportation requirements of the major vertically integrated oil companies in Russia. The table below sets out information on the number and source of BTS's fleet of rolling stock by category and locomotives as at 30 June 2009.

Units	Owned[1]	Leased	Total number
Rail tank cars	6,581	2,461	9,042
Gondola (open top) cars	595	—	595
Locomotives	34	15	49
Total	**7,210**	**2,476**	**9,686**

(1) Includes railcars leased under finance leases.

The average age of BTS's rolling stock owned or held under financial leases as of 30 June 2009 was 11.1 years for its rail tank cars, 8.8 years for its gondola (open top) cars and 4.5 years for its locomotives. BTS uses on operating leasing of rolling stock from third parties as a reliable way to enable it to react to changes in demand for freight rail transportation services without requiring significant capital outflows.

BTS manages its fleet efficiently from two dispatching offices in St. Petersburg and Voronezh, one branch in Moscow and seven representative offices in key regions. BTS has extensive experience operating block trains with its own locomotives, which allows it to deliver a more competitive service to clients by offering better delivery times and turnover of railcars and greater reliability in terms of providing rail tank cars for on-time dispatching. This service is key for major oil producers, as they do not typically have significant storage capacity on site and need very prompt dispatching and delivery. BTS operates an internally customised IT system into which information from Russian Railways is automatically transferred.

Key customers of BTS are oil majors, including Gazpromneft and TNK-BP, and other oil companies, including Taif. The table below shows the percentage of Net Revenue from Operation of Rolling Stock generated by BTS from services provided to its key customers in the six months ended 30 June 2009.

Customer group	Customer's sector	Per cent. of BTS's Net Revenue from Operation of Rolling Stock for the six months ended 30 June 2009
TNK-BP	Oil products and oil	54%
Gazpromneft	Oil products and oil	16%
Taif	Oil products and oil	13%
Other	Oil products and oil	17%
Total		**100%**

Source: BTS management accounts

Fuel oil is BTS' primary cargo, accounting for approximately 50 per cent. of volumes in the six months ended 30 June 2009. Approximately 97 per cent. of the cargoes transported by BTS by Net Revenue from Operation of Rolling Stock in the six months ended 30 June 2009 were Class 2.

Demand for fuel oil transportation by rail is expected to remain stable or increase in Russia, along with expected increases in refining capacity and export. Rail is currently the only means for effectively transporting fuel oil in Russia although small volumes are transported by water in the summer months. The product pipeline network is limited to diesel and gasoline and the Russian highway infrastructure is not sufficient to support shipment by road. Management believes that BTS is well placed to take advantage of the stability of, and expected growth in, the fuel oil transportation market in Russia.

Approximately 50 per cent. of all BTS shipments use BTS operated locomotives. BTS management believe that BTS' ability to provide locomotive services, as well as railcar services, enables it to provide a more competitive service to its customers as dispatching is not dependent upon Russian Railways to provide locomotives which eliminates time lost for change of locomotives, increases the turnover of railcars and improves delivery time and enables BTS to adjust shipment schedules to clients' needs. This efficiency is very important for the big oil refineries as they operate continuous production facilities which have regular shipping needs as they do not have substantial storage capacity at their sites. Prompt and quick delivery and shipment of cargo provides customers with working capital advantages due to the high value of transported cargo. BTS has a freight carrier license which is valid through July 2014 but it has not concluded any agreements for railway transportation with customers as a carrier so Russian Railways remains the carrier for the transportation, including locomotive, services that BTS offers to its customers. Locomotive crews are provided by Russian Railways.

BTS acquired a railcar repair and maintenance depot in Ivanovo in August 2008. The depot is located close, and on the transportation route, to the Yaroslavl refinery, one of the largest refineries serviced by BTS. As a result, additional transportation time is not required for routine repairs and preventative maintenance. By carrying out its own repair and maintenance of rail tank cars in Ivanovo, BTS is better able to control the quality, efficiency and cost of repairs and managed to optimise its repair cost by substituting the most expensive depots with its own repairs. In addition, it is less dependent on Russian Railways for repair services, although Russian Railways does remain responsible for access of the railcars to the public railway infrastructure. Management believes that over time up to 50 per cent. of its railcar repairs could be done at the Ivanovo depot.

BTS had 427 employees as of 30 June 2009, up from 207 employees as of 30 June 2008. The substantial increase in the number of employees in the period was the result of the acquisition of the Ivanovo depot which added 214 employees. All of BTS's managers have extensive experience in the railway industry, and most of them have been with the company since its foundation.

Contracts for the shipment of oil products and oil by rail in Russia tend to be one year contracts with automatic renewal provisions and are terminable upon request of one of the parties before the end of the contract term. The contracts establish general terms. Specific terms, including pricing volumes and destinations, are adjusted on a monthly/half yearly basis in either a contractual addendum or an application for cargo transportation. Most contracts provide for, and BTS generally receives, full payment in advance. Pricing for the services offered by BTS is unregulated but, as with other private rail operators, the regulated charges that apply to Russian Railways provide an effective pricing benchmark.

Selected Financial and Operating Information

The following table sets forth the principal components of BTS's income statement extracted from the BTS Financial Statements included in this Offering Memorandum in Roubles for the six-month periods ended 30 June 2009 and 2008 and the years ended 31 December 2008 and 2007.

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(unaudited)		(audited)	
	(RUB in thousands)			
Revenue	11,439,171	10,110,130	19,832,808	17,357,102
Cost of sales	(9,763,661)	(8,907,547)	(17,523,809)	(15,194,138)
Gross profit	**1,675,510**	**1,202,583**	**2,308,999**	**2,162,964**
Selling, general and administrative expenses	(121,882)	(108,995)	(239,362)	(250,249)
Amortisation of the issued guarantee	57,129	10,308	—	—
Other income	10,704	7,392	33,600	15,978
Other expenses	(29,871)	(22,193)	(78,058)	(161,321)
Operating profit	**1,591,590**	**1,089,095**	**2,025,179**	**1,767,372**
Interest expense—borrowings	(32,928)	(53,192)	(100,691)	(153,005)
Finance charge—leasing	—	—	—	(1,694)
Dividends to participants	(867,000)	(750,000)	(1,050,000)	(1,020,000)
Finance income	2,945	9,480	17,917	10,126
Foreign exchange (loss)/gain on non-operating activities	(90,077)	69,923	(292,572)	123,051
Profit before income tax	**604,530**	**365,306**	**599,833**	**725,850**
Income tax expense	(294,685)	(275,012)	(411,310)	(438,826)
Change in surplus of net assets attributable to participants	**309,845**	**90,294**	**188,523**	**287,024**

The following table sets forth the principal components of BTS's income statement translated into US Dollars (using the RUB/USD exchange rates described in "Presentation Of Financial and Other Information") for the six-month periods ended 30 June 2009 and 2008 and the years ended 31 December 2008 and 2007.

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(unaudited)		(unaudited)	
	(USD in thousands)			
Revenue	343,826	422,693	797,331	679,297
Cost of sales	(293,466)	(372,414)	(704,503)	(594,646)
Gross profit	**50,360**	**50,279**	**92,828**	**84,651**
Selling, general and administrative expenses	(3,663)	(4,557)	(9,623)	(9,794)
Amortisation of the issued guarantee	1,717	431	—	—
Other income	322	309	1,351	625
Other expenses	(898)	(928)	(3,138)	(6,314)
Operating profit	**47,838**	**45,534**	**81,418**	**69,168**
Interest expense—borrowings	(990)	(2,224)	(4,048)	(5,988)
Finance charge—leasing	—	—	—	(66)
Dividends/Distribution to participants	(26,060)	(31,356)	(42,213)	(39,919)
Finance income	89	396	720	396
Foreign exchange (loss)/gain on non-operating activities	(2,707)	2,923	(11,762)	4,816
Profit before income tax	**18,170**	**15,273**	**24,115**	**28,407**
Income tax expense	(8,857)	(11,498)	(16,536)	(17,174)
Change in surplus of net assets attributable to participants	**9,313**	**3,775**	**7,579**	**11,233**

The following table sets forth the principal components of BTS's balance sheet extracted from the BTS Financial Statements included in this Offering Memorandum in Roubles as at 30 June 2009 and 31 December 2008 and 2007.

	As at 30 June 2009	As at 31 December 2008	As at 31 December 2007
	(unaudited)	(audited)	
	(RUB in thousands)		
Assets			
Current assets	1,407,635	1,886,511	1,520,255
Non-current assets	4,890,527	5,070,292	5,324,494
Total assets	**6,298,162**	**6,956,803**	**6,844,749**
Liabilities			
Current liabilities	927,460	1,648,956	1,151,677
Non-current liabilities	311,779	558,769	1,132,517
Total liabilities excluding net assets attributable to participants	**1,239,239**	**2,207,725**	**2,284,194**
Net assets attributable to participants			
Charter capital	119,168	119,168	119,168
Cumulative surplus of net assets	4,939,755	4,629,910	4,441,387
Total net assets attributable to participants	**5,058,923**	**4,749,078**	**4,560,555**
Total liabilities	**6,298,162**	**6,956,803**	**6,844,749**

The following table sets forth the principal components of BTS's balance sheet translated into US Dollars (using the RUB/USD exchange rates described in "Presentation of Financial and Other Information") as at 30 June 2009 and 31 December 2008 and 2007.

	As at 30 June 2009	As at 31 December 2008	As at 31 December 2007
	(unaudited) (USD in thousands)		
Assets			
Current assets	44,986	64,210	61,935
Non-current assets	156,295	172,574	216,917
Total assets	**201,281**	**236,784**	**278,852**
Liabilities			
Current liabilities	29,640	56,124	46,919
Non-current liabilities	9,964	19,019	46,138
Total liabilities excluding net assets attributable to participants	**39,604**	**75,143**	**93,057**
Net assets attributable to participants			
Charter capital	3,808	4,056	4,855
Cumulative surplus of net assets	157,869	157,585	180,940
Total net assets attributable to participants	**161,677**	**161,641**	**185,795**
Total liabilities	**201,281**	**236,784**	**278,852**

Additional (Non-GAAP) Financial Information

The following table sets forth additional non-GAAP financial information for BTS in Roubles for the six-month periods ended 30 June 2009 and 2008 and the years ended 31 December 2008 and 2007.

	Six months ended 30 June 2009	Six months ended 30 June 2008	Years ended 31 December 2008	Years ended 31 December 2007
	(RUB in thousands)			
Adjusted Revenue(1)(2)	5,012,105	4,110,399	8,492,540	6,688,086
Net Revenue from Operation of Rolling Stock(1)(3)	4,873,777	3,945,497	8,154,779	6,399,426
EBITDA(1)(4)	1,686,260	1,340,784	2,102,764	2,248,840
Adjusted EBITDA(1)(5)	1,738,375	1,275,354	2,439,794	2,271,132
Empty Run Costs(6)(1)	1,111,344	1,126,104	2,244,001	1,837,679
ROCE(1)(7)	41%	n/a	33%	n/a

The following table sets forth additional non-GAAP financial information for BTS translated into US Dollars (using the RUB/USD exchange rates described in "Presentation Of Financial and Other Information) for the six-month periods ended 30 June 2009 and 2008 and the years ended 31 December 2008 and 2007.

	Six months ended 30 June 2009	Six months ended 30 June 2008	Years ended 31 December 2008	Years ended 31 December 2007
	(USD in thousands)			
Adjusted Revenue(1)(2)	150,648	171,851	341,423	261,749
Net Revenue from Operation of Rolling Stock(1)(3)	146,491	164,956	327,844	250,451
EBITDA(1)(4)	50,684	56,057	84,537	88,012
Adjusted EBITDA(1)(5)	52,250	53,321	98,086	88,884
Empty Run Costs(6)(1)	33,404	47,081	90,215	71,920
ROCE(1)(7)	37%	n/a	36%	n/a

Operating Information

	Six months ended 30 June[8]		Years ended 31 December[9]	
	2009	2008	2008	2007
Freight rail turnover (billion tonnes-km)[10]	8.7	9.0	16.8	16.9
Average price per trip (USD)[11]	781	1,119	1,046	743
Average number of loaded trips per railcar[12]	23.4	19.0	40.5	45.3
Average distance of loaded trips (km)	857.7	1,048.6	928.2	869.1
Transportation volume (thousand tonnes)	10,114	8,572	18,097	19,502
Average rolling stock operated[13]	8,003	7,753	7,740	7,441
Total rolling stock owned and leased under finance and operating lease (at period end)	9,686	9,577	9,660	9,311

(1) Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA, Empty Run Costs and ROCE are presented as supplemental measures of BTS's operating performance. 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 BTS's results as reported under IFRS. See "Presentation of Financial and Other Information". Reconciliations of Net Revenue from Operation of Rolling Stock to revenue, Adjusted Revenue to revenue and EBITDA and Adjusted EBITDA to change in surplus of net assets attributable to participants are set out below.

Reconciliation of Adjusted Revenue to Revenue

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(RUB in thousands)			
Revenue				
Transportation Services rendered	11,284,008	9,945,133	19,488,198	17,068,442
Rental Income	138,328	164,902	337,761	288,660
Minus				
Infrastructure and locomotive tariffs: loaded trips	(6,410,231)	(5,999,636)	(11,333,419)	(10,669,016)
Adjusted Revenue	**5,012,105**	**4,110,399**	**8,492,540**	**6,688,086**

Reconciliation of Net Revenue from Operation of Rolling Stock to Transportation Services Rendered

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(RUB in thousands)			
Transportation services rendered	**11,284,008**	**9,945,133**	**19,488,198**	**17,068,442**
Minus				
Infrastructure and locomotive charges: loaded trips	6,410,231	5,999,636	11,333,419	10,669,016
Net Revenue from Operation of Rolling Stock	**4,873,777**	**3,945,497**	**8,154,779**	**6,399,426**

Reconciliation of EBITDA and Adjusted EBITDA to Profit for the Period

	Six months ended 30 June		Years ended 31 December	
	2009	2008	2008	2007
	(RUB in thousands)			
Change in surplus of net assets attributable to participants	**309,845**	**90,294**	**188,523**	**287,024**
Plus				
Income tax expense	294,685	275,012	411,310	438,826
Interest expense—borrowings	32,928	53,192	100,691	153,005
Finance charge-leasing	—	—	—	1,694
Finance income	(2,945)	(9,480)	(17,917)	(10,126)
Dividends to participants	867,000	750,000	1,050,000	1,020,000
Depreciation	184,747	181,766	370,157	358,417
EBITDA	**1,686,260**	**1,340,784**	**2,102,764**	**2,248,840**
Minus (Plus)				
Foreign exchange (loss)/gain on non-operating activities	(90,077)	69,923	(292,572)	123,051
Amortisation of the issued guarantee	57,129	10,308	—	—
Other income	10,704	7,392	33,600	15,978
Other expenses	(29,871)	(22,193)	(78,058)	(161,321)
Adjusted EBITDA	**1,738,375**	**1,275,354**	**2,439,794**	**2,271,132**

(2) Adjusted Revenue is calculated as transportation services rendered plus rental income less infrastructure and locomotive tariffs: loaded trips as part of the OAO "Russian Railways" infrastructure tariff component of cost of sales reported under IFRS.

(3) Net Revenue from Operation of Rolling Stock is defined as transportation services rendered less infrastructure and locomotive tariffs: loaded trips as part of the OAO "Russian Railways" infrastructure tariff component of cost of sales reported under IFRS.

(4) EBITDA represents change in surplus of net assets attributable to participants before income tax expense, dividends to participants, finance income, finance charge-leasing, interest expense-borrowings and depreciation.

(5) Adjusted EBITDA represents EBITDA less other income, other expenses, foreign exchange (loss)/gain on non-operating activities and amortisation of the issued guarantee.

(6) Empty Run Costs is derived from the management accounts and presented as part of the OAO "Russian Railways" infrastructure tariff component of cost of sales reported under IFRS.

(7) ROCE is defined as Adjusted EBITDA (last twelve months basis) minus depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total net assets attributable to participants and total borrowings.

(8) Represents six-month periods ended 30 June 2009 and 2008, except for Total rolling stock owned or leased under finance lease (at period end), which is as at 30 June 2009 and 2008, respectively.

(9) Represents years ended 31 December 2008 and 2007, except for Total rolling stock owned or leased under finance lease (at period end), which is as at 31 December 2008 and 2007, respectively.

(10) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

(11) Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(12) Average Number of Loaded Trips per Railcar is calculated as the total number of loaded trips in the relevant year divided by Average Rolling Stock Operated.

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

Recent Developments

The Company has been advised by the management of BTS that the performance of BTS since 30 June 2009 is in line with expectations.

In October 2009, BTS declared a distribution to participants of RUB 1,500,000 thousand (including withholding tax of RUB 75,000 thousand). Of this amount, RUB 750,000 thousand was paid in October-November 2009 and RUB 750,000 thousand is due to be paid in mid-December 2009. In November 2009, BTS made an early repayment on certain of its US dollar denominated borrowings. The carrying value as of 30 June 2009 of the borrowings repaid was RUB 443,755 thousand, including current portion of RUB 221,887 thousand. In addition, BTS is currently in the process of renegotiating certain of its borrowing facilities and expects to repay one of its existing facilities on or about 11 December 2009 and enter into two new facilities in the total amount of up to USD 50 million resulting in an overall increase in borrowings and a net increase in pledged rolling stock from 1,250 units to 2,996 units.

FACTORS AFFECTING BTS'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BTS's financial results have been affected, and results are likely to be affected in the future by a wide variety of factors including the factors affecting the results and future results of the Group described under "Management's Discussion and Analysis of Financial Condition and Results of Operations". The nature of BTS's business, however, also exposes it to other factors.

BTS's customer base is more concentrated than that of the Group, with one customer accounting for 54 per cent. of BTS's Net Revenue from Operation of Rolling Stock for the six months ended 30 June 2009. In addition, substantially all of BTS's revenues are derived from the shipment of oil products and oil. As its rolling stock is not adaptable to the shipment of other cargoes, it is dependent upon the oil industry and the Russian oil majors, as well as the market and other factors that affect volumes of oil shipped and the prices that customers are willing to pay for such shipments.

BTS operates locomotives, which enable it to provide block-trains to its customers. Block-trains allow more efficient delivery and turn around of railcars. While operating its own locomotives, BTS is entitled to a discount from the Russian Railways tariff. Adding this discount on top of the own railcar operations margin makes using its own locomotive service economically viable.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2009 AND 2008

Revenue and Adjusted Revenue

The following tables set forth revenue and adjusted revenue, broken down by area of revenue-generating activity of BTS for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	**2008**
	(RUB in thousands)	
Revenue		
Transportation services rendered	11,284,008	9,945,133
Rental income	138,328	164,902
Other	16,835	95
Total	**11,439,171**	**10,110,130**

Adjusted Revenue

	Six months ended 30 June	
	2009	**2008**
	(RUB in thousands)	
Transportation services rendered	11,284,008	9,945,133
Rental income	138,328	164,902
Minus		
Infrastructure and locomotive tariffs: loaded trips	6,410,231	5,999,636
Adjusted Revenue	**5,012,105**	**4,110,399**

Revenue increased by RUB 1,329,041 thousand, or 13.1 per cent., from RUB 10,110,130 thousand in the six months ended 30 June 2008 to RUB 11,439,171 thousand in the six months ended 30 June 2009. Adjusted Revenue increased by RUB 901,706 thousand, or 21.9 per cent., from RUB 4,110,399 thousand in the six months ended 30 June 2008 to RUB 5,012,105 thousand in the six months ended 30 June 2009.

This increase was primarily due to an increase in the average number of loaded trips per railcar by 23.2 per cent. from 19.0 per railcar in the six months ended 30 June 2008 to 23.4 per railcar in the six months ended 30 June 2009, as a result of additional volumes on the domestic market, and a 3.2 per cent. increase in average rolling stock operated from 7,753 railcars in the six months ended 30 June 2008 to 8,003 railcars in the six months ended 30 June 2009, offset in part by a slight decrease in price per trip. Following stronger demand for its services, BTS increased the number of leased railcars. The effects of the above increases were partially offset by a slight decrease in the average price per trip of 2.9 per cent. due to an increased proportion of shorter-distance domestic transportation.

Rental income decreased by RUB 26,574 thousand, or 16.1 per cent., from RUB 164,902 thousand in the six months ended 30 June 2008 to RUB 138,328 thousand in the six months ended 30 June 2009, primarily due to a decrease in revenue from the leasing of gondola (open top) cars as lease rates for gondola (open top) cars were adversely affected by unfavourable market conditions and rental days were lost as railcars were transferred from one lessee to another.

Cost of sales

The following table sets forth a breakdown of cost of sales for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	**2008**
	(RUB in thousands)	
OAO "Russian Railways" infrastructure tariff		
Infrastructure and locomotive tariffs: loaded trips	6,410,231	5,999,636
Empty Run Trips and other tariff	1,277,134	1,181,102
Total Russian Railways infrastructure tariff	**7,687,365**	**7,180,738**
Transportation services provided by other carriers	509,499	285,157
Operating lease costs (locomotives and tankers)	395,014	304,495
Fuel and spare parts	262,229	337,067
Rolling stock repair and maintenance costs	433,718	354,370
Depreciation	173,133	178,096
Engagement of locomotive crews	149,212	134,525
Taxes (other than income tax and value added taxes)	55,748	57,867
Staff costs	61,785	42,120
Communication costs	19,561	15,314
Insurance	3,198	3,346
Other expenses	13,199	14,452
Total	**9,763,661**	**8,907,547**

Cost of sales increased by RUB 856,114 thousand, or 9.6 per cent., from RUB 8,907,547 thousand in the six months ended 30 June 2008 to RUB 9,763,661 thousand in the six months ended 30 June 2009. Nearly half of this increase was due to a 7.1 per cent. increase in Russian Railways infrastructure tariff due to an increase of 8.4 per cent. in July 2008 and a subsequent increase of 5 per cent. in January 2009 in the tariffs charged for infrastructure and locomotive services by Russian Railways and the increase in the number of loaded trips described above. The effect of the overall increase in tariff and total number of loaded trips on tariffs on empty run trips and tariffs on services provided by other transportation organisations was partially offset by a decrease in the empty run ratio. The balance of the increase is primarily attributable to a 78.7 increase in transportation services provided by other carriers primarily due to a substantial increase in transportation volumes provided by freight forwarders on routes where BTS does not operate such as Ukraine, Belarus and Lithuania, a 29.7 per cent. increase in operating lease costs due to a significant increase in lease rates and an increase in the total number of leased rail tank cars from 2,351 as of 30 June 2008 to 2,461 as of 30 June 2009 and a 22.4 per cent. increase in rolling stock repair and maintenance costs primarily due to an increase in the price of repairs and spare parts, as well as changes in contract terms for repair and maintenance of gondola (open top) cars leased out to third parties. Under the new contract terms, BTS bore the costs of repairs. Management believes that as the Ivanovo depot performs more repairs for the fleet it will have better control over the quality and price of such repairs. Engagement of locomotive crews also increased over the period primarily due to an increase in the total volumes transported with owned locomotives and staff costs increased primarily due to the addition of production employees from Ivanovo which was acquired in August 2008. The total number of BTS operating employees increased from 132 as at 30 June 2008 to 260 as at 30 June 2009. These increases were partially offset by a 22.2 per cent. decrease in fuel and spare parts due to a significant decrease in the cost of fuel.

Gross profit

Gross profit increased by RUB 472,927 thousand, or 39.3 per cent., from RUB 1,202,583 thousand in the six months ended 30 June 2008 to RUB 1,675,510 thousand in the six months ended 30 June 2009. This increase reflected the increase in revenue, partially offset by the increase in costs of sales, both as described above.

Selling, general and administrative expenses

The following chart is a breakdown of selling, general and administrative expenses for the six-month periods ended 30 June 2009 and 2008.

	Six months ended 30 June	
	2009	2008
	(RUB in thousands)	
Staff costs	56,178	51,992
Information, consulting and other professional services	14,387	11,767
Business trip and representation expenses	7,373	8,647
Operating lease expense for property, plant and equipment	9,096	8,292
Advertising and marketing expenses	2,841	6,773
Depreciation	11,614	3,670
Company vehicle maintenance	5,205	5,375
Communication costs	4,504	4,512
Other expenses	10,684	7,967
Total	**121,882**	**108,995**

Selling, marketing and administrative expenses increased by RUB 12,887 thousand, or 11.8 per cent., from RUB 108,995 thousand for the six months ended 30 June 2008 to RUB 121,882 thousand for the six months ended 30 June 2009, primarily as a result of a 8.1 per cent. increase in staff costs reflecting the addition of administrative personnel from the Ivanovo depot acquired in August 2008 (total administrative personnel increased from 75 as at 30 June 2008 to 167 as at 30 June 2009) and slight salary increases, a 216.5 per cent. increase in depreciation expense, reflecting the depreciation associated with the Ivanovo assets, and a 22.3 per cent. increase in information, consulting and other professional services largely attributable to an increase in auditing costs. These increases were partially offset by decreases in other expenses and advertising and marketing expenses as a result of cost cutting initiatives.

Other income

Other income increased by RUB 3,312 thousand, or 44.8 per cent., from RUB 7,392 thousand in the six months ended 30 June 2008 to RUB 10,704 thousand in the six months ended 30 June 2009, reflecting income from the sale of other assets (inventory and scrap metal).

Other expenses

Other expenses increased by RUB 7,678 thousand, or 34.6 per cent., from RUB 22,193 thousand in the six months ended 30 June 2008 to RUB 29,871 thousand in the six months ended 30 June 2009, reflecting an increase in charity expenses.

Operating profit

BTS's operating profit increased by RUB 502,495 thousand, or 46.1 per cent., from RUB 1,089,095 thousand in the six months ended 30 June 2008 to RUB 1,591,590 thousand in the six months ended 30 June 2009. This increase was due to the factors discussed above.

EBITDA and Adjusted EBITDA

EBITDA represents change in surplus of net assets attributable to participants before income tax expense, dividends to participants, finance income, finance charge—leasing, interest expense—borrowings and depreciation. Adjusted EBITDA represents EBITDA less other income, other expenses, foreign exchange (loss)/gain on non-operating activities and amortisation of the issued guarantee.

EBITDA increased by RUB 345,476 thousand, or 25.8 per cent., from RUB 1,340,784 thousand in the six months ended 30 June 2008 to RUB 1,686,260 thousand in the six months ended 30 June 2009. This increase was primarily due to the increase in adjusted revenue which exceeded the growth in cost of sales and general selling and marketing expenses. Slower growth in expenses was also attributable to a decrease in the Empty Run ratio from 113 per cent. to 99 per cent. and an increase in foreign exchange loss on non-operating activities by RUB 160,000 thousand.

Adjusted EBITDA increased by RUB 463,021 thousand, or 36.3 per cent., from RUB 1,275,354 thousand in the six months ended 30 June 2008 to RUB 1,738,375 thousand in the six months ended 30 June 2009. This increase was primarily due to the increase in adjusted revenue which exceeded the growth in cost of sales and general selling and marketing expenses. Slower growth in expenses was also attributable to a decrease in the Empty Run ratio from 113 per cent. to 99 per cent.

Profit before income tax

Profit before income tax increased by RUB 239,224 thousand, or 65.5 per cent., from RUB 365,306 thousand in the six months ended 30 June 2008 to RUB 604,530 thousand in the six months ended 30 June 2009, due to the factors discussed above partially offset by the incurrence of foreign exchange losses of RUB 90,077 thousand in the six months ended 30 June 2009 as opposed to gains of RUB 69,923 thousand in the six months ended 30 June 2008. As a result of these losses, offset in part by a decrease in interest expense on borrowings.

Income tax expense

Income tax expense increased by RUB 19,673 thousand, or 7.2 per cent., from RUB 275,012 thousand in the six months ended 30 June 2008 to RUB 294,685 thousand in the six months ended 30 June 2009. This increase was primarily due to the increase in profit before income tax partially offset by the decrease in the statutory tax rate from 24 per cent. to 20 per cent.

The effective income tax rates were 48.7 per cent. and 75.3 per cent. in the six months ended 30 June 2009 and the six months ended 30 June 2008, respectively. Excluding the effect of dividends to participants, the effective income tax rates were 20.0 per cent. and 24.7 per cent. for the six months ended 30 June 2009 and the six months ended 30 June 2008, respectively.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

Revenue and Adjusted Revenue

The following tables set forth revenue and adjusted revenue, broken down by area of revenue-generating activity of BTS for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	**2007**
	(RUB in thousands)	
Revenue		
Transportation services rendered	19,488,198	17,068,442
Rental income	337,761	288,660
Other	6,849	—
Total Revenue	**19,832,808**	**17,357,102**

	Years ended 31 December	
	2008	**2007**
	(RUB in thousands)	
Adjusted Revenue		
Transportation services rendered	19,488,198	17,068,442
Rental income	337,761	288,660
Minus		
Infrastructure and locomotive tariffs: loaded trips	11,333,419	10,669,016
Adjusted Revenue	**8,492,540**	**6,688,086**

Revenue increased by RUB 2,475,706 thousand, or 14.3 per cent., from RUB 17,357,102 thousand in the year ended 31 December 2007 to RUB 19,832,808 thousand in the year ended 31 December 2008. Adjusted Revenue increased by RUB 1,804,454 thousand, or 27.0 per cent., from RUB 6,688,086 thousand in the year ended 31 December 2007 to RUB 8,492,540 thousand in the year ended 31 December 2008. This increase was primarily due to an increase in the average price per trip by 37.1 per cent. from RUB 18,991 in the year ended 31 December 2007 to RUB 26,028 as a result of increased prices, an increase in the average distance per loaded trip of 6.8 per cent. and an increase in average rolling stock operated by 4.0 per cent. from 7,441 railcars to 7,740 railcars. These increases were offset in part by a 10.6 per cent. decrease in the total number of loaded trips. Rental income increased by RUB 49,101 thousand, or 17.0 per cent., from RUB 288,660 thousand in the year ended 31 December 2007 to RUB 337,761 thousand in the year ended 31 December 2008, primarily due to increases in lease rates charged for gondola (open top) cars and rail tank cars and increased leased volumes in gondola (open top) cars.

Cost of sales

The following table sets forth a breakdown of cost of sales for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	**2007**
	(RUB in thousands)	
OAO "Russian Railways" infrastructure tariff		
Infrastructure and locomotive tariffs: loaded trips	11,333,419	10,669,016
Empty Run Trips and other tariff	2,321,315	2,021,917
Total Russian Railways infrastructure tariff	**13,654,734**	**12,690,933**
Operating lease costs (locomotives and tankers)	642,397	500,042
Fuel and spare parts	677,542	421,070
Rolling stock repair and maintenance costs	736,966	632,385
Depreciation	357,550	349,621
Engagement of locomotive crews	271,910	264,180
Taxes other than income	114,725	117,908
Transportation services provided by other carriers	905,925	97,322
Staff costs	104,845	78,582
Communication costs	31,120	25,464
Insurance	6,329	9,092
Other operating expenses	19,766	7,539
Total	**17,523,809**	**15,194,138**

Cost of sales increased by RUB 2,329,671 thousand, or 15.3 per cent., from RUB 15,194,138 thousand in the year ended 31 December 2007 to RUB 17,523,809 thousand in the year ended 31 December 2008. Nearly half of this increase is attributable to the increase in a 7.6 per cent. increase in Russian Railways infrastructure tariff expense due to a 6.2 per cent. increase in infrastructure and locomotive tariffs: loaded trips reflecting the increase in the Russian Railways tariff by 11.5 per cent. in January 2008, 1.0 per cent. in April 2008 and 8.4 per cent. in July 2008, a 14.8 per cent. increase in empty run trips and services provided by other transportation organisations primarily due to the tariff increase, an increase in empty run ratio from 110 per cent. to 126 per cent. as a result of the relocation of certain railcars to the domestic market in 2008 and a subsequent decrease in domestic transportation volumes and a decrease in loaded trips from 336,979 to 313,304 trips.

The balance of the increase is primarily attributable to a RUB 808,603 thousand increase in transportation services provided by other carriers due to payments made to freight-forwarders for transportation in Ukraine, Belarus and Lithuania beginning in May 2008 (previously, such payments were made directly by the customer to the freight forwarders), a 60.9 per cent. increase in fuel and spare parts cost primarily due to an increase in the price of diesel fuel and increases in consumption of, and the prices for, engine oil, which were partially offset by a decrease in the average consumption of diesel, a 28.5 per cent. increase in operating lease costs (locomotives and tankers) due to an increase of lease rates and an increase in the total number of leased rail tank cars from 2,085 oil tank cars as at 31 December 2007 to 2,434 rail tank cars as at 31 December 2008, an increase in rolling stock repair and maintenance costs by 16.5 per cent.

primarily due to an increase in the price of repairs and an increase in staff costs reflecting the additional personnel added as a result of the acquisition of Ivanovo.

Gross profit

Gross profit increased by RUB 146,035 thousand, or 6.8 per cent., from RUB 2,162,964 thousand in 2007 to RUB 2,308,999 thousand in 2008. This increase reflected the increase in revenue, partially offset by the increase in costs of sales, both as described above.

Selling, general and administrative expenses

The following chart is a breakdown of selling, general and administrative expenses for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	**2007**
	(RUB in thousands)	
Staff costs	110,317	135,890
Information, consulting and other professional services	28,030	25,330
Business trip and representation expenses	18,080	16,644
Operating lease expense for property, plant and equipment	16,941	13,722
Advertising and marketing expenses	13,471	14,754
Depreciation	12,607	8,796
Company vehicle maintenance	12,047	14,343
Communication expenses	9,622	10,825
Other	18,247	9,945
Total	**239,362**	**250,249**

Selling, marketing and administrative expenses decreased by RUB 10,887 thousand, or 4.4 per cent., to RUB 239,362 thousand for the year ended 31 December 2008 from RUB 250,249 thousand for the year ended 31 December 2007, primarily reflecting an 18.8 per cent. decrease in staff costs, as bonuses were not paid to senior management in 2008, partially offset by increases in other expenses.

Other income

Other income increased by RUB 17,622 thousand, from RUB 15,978 thousand in the year ended 31 December 2007 to RUB 33,600 thousand in the year ended 31 December 2008. The significant increase reflected an increase in amortisation of the issued guarantee by RUB 22,092 thousand.

Other expenses

Other expenses decreased by RUB 83,263 thousand, or 51.6 per cent., from RUB 161,321 thousand in the year ended 31 December 2007 to RUB 78,058 thousand in the year ended 31 December 2008, primarily because other expenses in the year ended 31 December 2007 included RUB 106,944 thousand, reflecting a fair value, free of charge guarantee issued to OOO Severstaltrans-Finance.

Operating profit

BTS's operating profit increased by RUB 257,807 thousand, or 14.6 per cent., from RUB 1,767,372 thousand in the year ended 31 December 2007 to RUB 2,025,179 thousand in the year ended 31 December 2008. This increase was due to the increase in revenues and other income and the decrease in selling marketing and administrative expenses.

EBITDA and Adjusted EBITDA

EBITDA decreased by RUB 146,076 thousand, or 6.5 per cent., from RUB 2,248,840 thousand in the year ended 31 December 2007 to RUB 2,102,764 thousand in the year ended 31 December 2008. This decrease was primarily due to foreign exchange loss incurred in the period which has more than offset the factors described above.

Adjusted EBITDA increased by RUB 168,662 thousand, or 7.4 per cent., from RUB 2,271,132 thousand in the year ended 31 December 2007 to RUB 2,439,794 thousand in the year ended 31 December 2008. This increase was primarily due to the factors described above under operating profit.

Profit before income tax

Profit before income tax decreased by RUB 126,017 thousand, or 17.4 per cent., from RUB 725,850 thousand in the year ended 31 December 2007 to RUB 599,833 thousand in the year ended 31 December 2008. This decrease was primarily due to the incurrence of foreign exchange losses of RUB 292,572 thousand in the year ended 31 December 2008 as opposed to gains of RUB 123,051 thousand in the year ended 31 December 2007 which offset the increase in operating profit as well as a decrease in interest expense on borrowings.

Income tax expense

The following table sets forth a breakdown of income tax expense for the years ended 31 December 2008 and 2007.

	Years ended 31 December	
	2008	2007
	(RUB in thousands)	
Current tax	420,211	469,069
Deferred tax	(8,901)	(30,243)
Income tax expense for the year	**411,310**	**438,826**

Income tax expense decreased by RUB 27,516 thousand, or 6.3 per cent., from RUB 438,826 thousand in the year ended 31 December 2007 to RUB 411,310 thousand in the year ended 31 December 2008. This decrease was primarily due to the reduction in profit before income tax.

During 2007 and 2008, BTS was subject to a tax rate of 24 per cent. However, an income tax rate of 20 per cent. was ratified in November 2008, and became effective from 1 January 2009. As this tax rate was passed by 31 December 2008, the effect of the change on closing deferred tax liabilities was recognised in the BTS Financial Statements for the year ended 31 December 2008.

The effective income tax rates were 68.6 per cent. and 60.5 per cent. in the year ended 31 December 2008 and the year ended 31 December 2007, respectively. Excluding the effect of dividends on profit before income tax to effective income tax rates were 24.9 per cent. and 25.1 per cent. in the year ended 31 December 2008 and the year ended 31 December 2007, respectively.

Related party arrangements

BTS is required to report all related party transactions, as defined in IAS 24 "Related Party Disclosures," in accordance with IFRS. During 2008 and 2007, and the six-month period ended 30 June 2009 BTS entered into a number of transactions with third parties under common control with, or otherwise related to, TIHL in the ordinary course of business. These related party transactions are described in the BTS Financial Statements. Certain of these transactions were with subsidiaries of the Company.

RUSSIAN OIL PRODUCT AND OIL RAIL TRANSPORTATION MARKET

Russian oil production and markets

Production

Russia is the second largest producer of crude oil and condensate (a liquid hydrocarbon produced during gas production, which is similar to high quality crude oil) in the world, according to the BP Statistical Review 2008, with production of 489 million tonnes in 2008. In recent years Russian oil and condensate production has been broadly flat. The impact of the recent downturn on Russian oil and condensate production was minimal, reflecting the low elasticity of supply and demand in the market for Russian oil and condensate.

Markets

Russian oil and condensate is processed at Russian refineries as well as being exported unprocessed to international markets. The volume of oil and condensate refined in Russia has increased in recent years, from 207 million tonnes in 2005 to 236 million tonnes in 2008, which represents a compound annual growth rate (***CAGR***) of 4.5 per cent. This increase has been encouraged by changes in the Russian fiscal system that were intended to make refining oil and condensate within Russia more attractive than exporting such commodities for refining. The proportion of total oil and condensate production processed in Russian refineries increased from 43.9 per cent. in 2005 to 48.2 per cent. in 2008, while export volumes remained broadly flat during the same period.

Russian oil and condensate production and markets

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1–3
				(tonnes in millions)								
Production	470	481	491	121	121	123	123	489	120	123	125	368
Refining	207	219	228	59	57	61	59	236	58	57	61	176
Total exports	252	250	257	59	62	60	59	240	61	63	61	186
Technical use, losses	12	12	6	3	2	3	4	13	1	2	3	6

Source: Argus

Outlook

Argus expects oil and condensate production in Russia to increase slightly in the near future, with production in new regions increasing and production in the current main producing regions remaining stable or registering a slight decline. Oil and condensate production increased at 1.3 per cent. in the second quarter of 2009 as compared to the second quarter of 2008 and 1.6 per cent. in the third quarter of 2009 as compared to the third quarter of 2008.

Russian refining sector

Russia has 27 major refineries and a number of smaller facilities. Of the major refineries, only one is located near a seaport; the remainder do not have direct access to ports for exports. The largest refineries are located in the Volga, Central, and Siberian federal districts, mostly at considerable distances from the coast. In addition, a number of large refineries are located in the Bashkiria and Volga regions, where Russia's oil industry first developed, at considerable distances from key centres of domestic demand.

Refining in Russia has increased steadily, from 207 million tonnes in 2005 to 236 million tonnes in 2008, according to Argus, representing a CAGR of 4.5 per cent. The relative apportionment of different refined products produced out of the total volume refined has not changed substantially in recent years. Fuel oil accounts for a large share of total production, ranging from 30.3 per cent. to 31.4 per cent. of annual total refinery output from 2005 to 2008.

The impact of the recent economic downturn on oil product production has been minimal, reflecting the low elasticity of supply and demand, and the high margins of Russian refiners compared to global competitors.

Russian refined product output

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1–3
				(tonnes in millions)								
Gasoline	34.4	37.0	37.3	9.6	8.8	9.7	9.6	37.7	9.5	8.9	9.9	28.3
Naphtha	7.9	10.1	11.3	3.2	3.1	3.1	3.0	12.3	3.1	3.3	3.0	9.4
Jet fuel	8.2	9.1	9.0	2.0	2.5	2.8	2.1	9.4	1.9	2.2	2.5	6.6
Diesel + heating oil	60.9	64.7	66.8	17.5	16.4	17.7	17.8	69.5	17.1	16.3	17.6	51.1
VGO	7.0	7.2	7.4	2.3	2.6	2.6	2.8	10.3	2.8	2.8	2.9	8.5
Fuel oil	60.1	61.8	66.4	18.1	15.7	16.4	17.4	67.5	17.2	16.6	17.2	51.0
Bitumen	4.1	4.5	5.2	0.6	1.7	2.2	0.9	5.4	0.4	1.3	1.7	3.4
LPG	8.7	9.4	9.8	2.7	2.5	2.8	2.6	10.6	2.5	2.7	2.9	8.1
Total products	**191.4**	**203.8**	**213.2**	**56.0**	**53.2**	**57.3**	**56.1**	**222.7**	**54.6**	**54.1**	**57.7**	**166.3**

Source: Argus

Outlook

The Russian government actively supports the development of the refining sector, in accordance with its policy of promoting the processing of commodities domestically rather than exporting them for processing. Several large refinery construction projects are underway or are being actively considered. According to Argus, the projects underway or under consideration include the construction of a refinery complex with a capacity of 14 million tonnes per year in Nizhnekamsk, where construction has begun with the first stage, expected to come on line in 2011, the expansion of capacity of the existing Tuapse refinery to 12 million tonnes per year, which is also planned for 2011, and the expansion of capacity of the Antipinski refinery to 5 million tonnes per year, planned for 2012.

Russian oil product markets

Russia is a large exporter of refined products, as domestic demand for certain products, in particular fuel oil, diesel, and naphtha, is substantially less than production.

The volumes of Russian oil products consumed domestically have remained broadly flat in recent years. However, the volumes of Russian oil products exported have increased from 95 million tonnes per year in 2005 to 115 million tonnes per year in 2008, representing a CAGR of 6.7 per cent. This increase in exports is especially marked for fuel oil, as domestic demand is declining as a result of replacement of fuel oil with other fuels such as coal and gas for electricity generation. The CAGR of export volumes of fuel oil was 8.2 per cent. from 2005 to 2008.

Russian refined product markets

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1–3
	(tonnes in millions)											
Export												
Gasoline	7.0	7.7	7.2	1.9	1.4	1.5	1.8	6.5	2.0	1.8	1.2	5.0
Naphtha	6.5	6.6	7.1	2.0	1.8	1.9	1.8	7.5	2.0	2.3	1.9	6.3
Jet fuel	1.4	1.7	1.6	0.3	0.4	0.4	0.4	1.4	0.5	0.5	0.5	1.5
Diesel	33.1	35.3	35.6	9.4	8.5	8.7	9.3	35.9	9.9	8.9	9.7	28.6
VGO	4.8	6.1	6.9	2.0	2.3	2.5	2.8	9.5	2.5	2.5	2.5	7.5
Fuel oil	38.2	37.0	44.0	12.4	11.3	12.4	12.2	48.4	12.2	13.6	13.1	38.8
Bitumen	0.5	0.5	0.8	0.0	0.2	0.3	0.1	0.6	0.1	0.2	0.3	0.6
LPG	1.4	1.5	1.5	0.4	0.4	0.5	0.7	2.1	0.6	0.6	0.6	1.8
Other	2.0	2.3	2.8	0.8	0.9	0.9	0.7	3.3	0.7	1.3	1.0	3.0
	94.9	**98.8**	**107.5**	**29.2**	**27.1**	**29.1**	**29.9**	**115.3**	**30.5**	**31.6**	**30.9**	**93.0**
Domestic												
Gasoline	23.3	24.5	25.0	6.2	6.5	7.0	6.6	26.4	6.2	6.1	7.2	19.6
Naphtha	3.4	2.6	2.3	0.6	0.6	0.6	0.5	2.3	0.5	0.5	0.5	1.6
Jet fuel	6.8	7.3	8.0	1.8	2.1	2.4	1.6	7.9	1.3	1.6	1.9	4.9
Diesel	28.4	31.3	33.1	8.3	8.6	9.3	7.8	34.1	7.1	6.9	7.8	21.9
VGO	0.8	0.3	0.6	0.1	0.3	0.3	0.1	0.7	0.0	0.2	0.2	0.4
Fuel oil	20.0	22.8	19.5	5.0	3.8	3.6	4.5	16.9	4.2	2.9	3.0	10.1
Bitumen	1.8	2.0	1.9	0.4	0.6	0.7	0.3	1.9	0.1	0.4	0.4	1.0
LPG	5.1	5.6	5.8	1.6	1.4	1.5	1.4	6.0	1.2	1.3	1.5	4.0
Other	5.1	5.4	5.6	1.3	1.3	1.3	1.0	4.8	0.9	1.0	1.1	3.0
	94.7	**101.8**	**101.7**	**25.3**	**25.3**	**26.7**	**23.8**	**101.1**	**21.7**	**21.0**	**23.7**	**66.4**

Source: Argus

Russian oil product transportation

The majority of Russian refined products are transported by rail. In 2008, 78.9 per cent. of export volumes, 88.9 per cent. of domestic volumes and 83.5 per cent. of total volumes were transported by rail. The product pipeline network is limited to diesel and gasoline. According to Argus, with the exception of some small volumes of fuel oil and vacuum gas oil (***VGO***) carried by river during the summer months, substantially all other products are transported by rail. According to Argus, some volumes are also transported by a combination of rail and pipeline, and in 2008 multimodal volumes to export and domestic destinations totalled 7.2 million tonnes.

As the proportion of total Russian oil products exported has increased, so has the share of Russian oil product volumes transported by rail which is exported. In 2005, 46 per cent. of the total volume of Russian oil products which was transported by rail was transported to export destinations, in 2006 the proportion was 46 per cent., in 2007 it was 48 per cent., in 2008 it was 51 per cent., and in the first to third quarters of 2009 it was 55 per cent. (compared to 51 per cent. in the first to third quarters of 2008).

Russian oil product transportation

				2008					2009			
	2005	2006	2007	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1-3
	(tonnes in millions)											
Export—pipeline	18.2	17.0	17.2	4.7	4.1	4.2	4.7	17.7	5.4	4.1	5.0	14.6
Export—rail	73.8	80.6	88.3	25.8	21.4	22.4	25.0	94.7	26.3	25.8	23.5	75.6
Export—river	9.4	6.1	7.0	—	2.8	3.6	1.1	7.5	—	3.1	3.8	6.9
Total transport to export destinations	101.4	103.7	112.5	30.5	28.4	30.2	30.9	119.9	31.7	33.0	32.3	97.0
Domestic—pipeline	9.3	10.1	10.3	2.3	3.1	3.6	2.5	11.5	1.9	2.3	2.6	6.8
Domestic—rail	87.6	94.0	93.8	23.5	22.9	23.9	21.8	92.2	20.2	19.1	21.5	60.8
Total transport to domestic destinations	96.9	104.1	104.1	25.8	26.1	27.6	24.3	103.7	22.1	21.4	24.1	67.6
Total—pipeline	27.5	27.1	27.5	6.9	7.3	7.9	7.2	29.3	7.3	6.4	7.6	21.4
Total—rail	161.4	174.6	182.1	49.3	44.4	46.4	46.8	186.8	46.4	44.9	45.0	136.4
Total—other	9.4	6.1	7.0	—	2.8	3.6	1.1	7.5	—	3.1	3.8	6.9
Total	**198.3**	**207.9**	**216.6**	**56.3**	**54.4**	**57.8**	**55.1**	**223.6**	**53.7**	**54.4**	**56.5**	**164.6**

Source: Argus

Outlook

The completion of inland refinery projects such as the Nizhnekamsk and Antipinsky refineries are expected by Argus to increase demand for rail transport. There are currently two product pipeline projects under development in Russia. According to Argus, the first, scheduled for launch in 2010 or 2011, will increase pipeline exports of diesel by 3.0 million tonnes per year, while the other, scheduled for launch between 2010 and 2012, will increase pipeline exports of diesel by 8.5 million tonnes per year. When completed, these projects will have a capacity equal to approximately 5.1 per cent. of the 2008 volumes of oil products transported in Russia. Currently, there are no other projects under active consideration.

Russian oil transportation

The majority of Russian oil and condensate (83.1 per cent. in 2008) is transported directly from the field to Russian refineries and export destinations by pipeline which, for the majority of crude, is the most economically effective means of transport. Rail or multi-modal transport including rail accounts for substantially all the remaining volumes of oil and condensate. Rail and multi-modal transport are used for the transport of high quality crude oil and condensate because it would become mixed with lower quality crude if it were transported via pipeline, thus depriving the producer of the ability to achieve premium pricing. Rail and multi-modal transport are also used for the transfer of oil and condensate to and from remote fields or refineries because it is not economical to build pipelines to certain remote fields and refineries. Rail volumes to Russian refineries and export destinations have been stable in recent years, within a range of 19.8 to 21.3 million tonnes each year from 2005 to 2008.

For logistical reasons, some oil and condensate is transported via a combination of rail and pipeline. In 2008, multimodal volumes to Russian refineries and export destinations totalled 28.8 million tonnes.

Russian oil and condensate transportation

	2005	2006	2007	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2008 Total	2009 Q1	2009 Q2	2009 Q3	2009 Q1–3
	(tonnes in millions)											
Export—pipeline	211	212	212	50	53	49	50	201	50	51	50	151
Export—rail	11	11	11	2.7	2.8	2.7	2.6	11	2.3	2.5	2.2	7
Export—other, including multimodal	30	39	40	10	9	11	12	41	10	12	12	34
Total transport to export destinations	252	262	264	62	64	63	64	253	62	65	64	192
Domestic—pipeline	186	191	197	51	50	52	51	204	50	50	53	152
Domestic—rail	9	10	9	2	2	2	2	9	2	2	2	7
Domestic—other, including multimodal	11	12	12	3	3	3	3	13	3	3	3	9
Total transport to domestic destinations	207	213	219	57	55	58	57	227	55	55	58	168
Total—pipeline	398	403	410	101	102	102	101	406	100	101	103	303
Total—rail	20	21	20	5	5	5	5	20	4	5	4	14
Total—other, including multimodal	41	50	53	13	12	14	15	54	13	14	15	43
Total	**458**	**475**	**483**	**119**	**119**	**121**	**120**	**479**	**118**	**120**	**122**	**360**

Source: Argus

Outlook

The completion of currently planned pipeline projects is not expected to result in any meaningful reduction in volumes of oil and condensate transported by rail in Russia and may result in a small increase, according to Argus. No reduction is expected because transportation of high quality crude and condensate by rail is expected to continue, as the introduction of a quality bank system to compensate producers of high quality crude for the loss of quality resulting from delivery via the pipeline system is unlikely, according to Argus.

The full launch of the first stage of the East Siberia-Pacific Ocean pipeline, which will link Russia's key crude production areas in Western Siberia and new fields in Eastern Siberia to China and the Pacific Ocean, is expected in late 2009 to 2010. This first stage is expected to result in an increase in rail volumes of up to 15 million tonnes per year, until the second stage linking Skovorodino to Kozmino, a port on the Pacific Coast of Russia, on the Pacific Ocean is completed (exact date unclear) because oil and condensate will need to be transported by rail over 2,000 kilometres from Skovorodino to ports on the Pacific coast of Russia. This increase will be offset somewhat by the expected launch in 2010 of a pipeline from Skovorodino to China, which will replace existing rail exports of 9 million tonnes, according to Argus. The other key project in development, BPS II, is expected to result in a reduction in flows through existing pipelines, rather than impacting rail volumes, according to Argus.

Kazakhstan oil rail transportation market

Kazakhstan oil production and markets

Kazakhstan oil production has experienced strong growth in recent years, with a CAGR of 4.7 per cent. from 2005 to 2008. The majority of the production volume of oil and condensate, 89.3 per cent. in 2008, is exported. As in Russia, the impact on oil and condensate production of the recent downturn has been minimal, reflecting the low elasticity of supply and demand.

Kazakhstan oil and condensate production and markets

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1–3
	(tonnes in millions)											
Production	61	64	67	18	18	17	18	71	18	19	19	56
Exports												
By Pipeline to/via Russia	15	16	16	4	4	4	4	17	4	4	4	13
Caspian Pipeline System	24	24	26	7	7	6	7	27	7	7	7	21
to China	—	2	5	1	1	1	1	5	1	1	2	4
Total	**40**	**42**	**46**	**12**	**12**	**12**	**13**	**48**	**13**	**13**	**13**	**38**
By tanker from Aktau	8	10	9	2	2	2	3	9	3	3	3	8
By rail exports	4	5	5	2	2	1	2	6	2	2	2	7
Total exports	**52**	**56**	**60**	**16**	**16**	**15**	**17**	**63**	**18**	**17**	**18**	**53**

Source: Argus

Outlook

According to Argus, the Kazakhstan Ministry of Energy predicts that production of oil in Kazakhstan could reach 100 million tonnes per year by 2015, an increase of 29 million tonnes, representing a CAGR of 5.1 per cent. from 2008 to 2015.

Kazakhstan oil and condensate transportation

A variety of routes are used for exports from Kazakhstan, including pipeline deliveries to Russian and other export destinations via the Russian pipeline system; pipeline exports via the Caspian Pipeline System to the Black Sea; from the port of Aktau by tanker to Russian, Azerbaijani and Iranian ports on the Caspian Sea; and by rail, mostly to the Ukrainian port of Odessa.

Rail transportation is also used for delivery of oil and condensate from fields which are not connected to the total pipeline network to the Port of Aktau and to the pipeline network for further deilvery to export destinations. In 2005, total rail transportation of oil and condensate to export, including these multimodal volumes, were a total of 8.8 million tonnes, in 2006 they were 10.1 million tonnes, in 2007 they were 9.3 million tonnes, in 2008 they were 10.3 million tonnes, and through the third quarter of 2009 they were 8.9 million tonnes compared to a total of 7.6 million tonnes through the third quarter of 2008.

Export transportation of oil by rail in recent years has increased as oil and condensate production has increased without a corresponding increase in pipeline or other export capacity. Export pipeline capacity is currently operating at close to maximum capacity. Tengizchevroil (Chevron 50 per cent., ExxonMobile 25 per cent., KazMunaiGas 20 per cent., LUKARCO 5 per cent.), developer of the Tengiz field, has recently begun to increase significantly its use of rail transport for deliveries to Aktau and to other seaports via Russia. From 2005 to 2008, exports via the Caspian Sea increased at a CAGR of 1.6 per cent.; pipeline exports increased at a CAGR of 6.8 per cent., the majority of which was accounted for by the start-up of a pipeline to China in 2006; and rail exports increased at a CAGR of 17.4 per cent.

Kazakhstan oil and condensate export transportation

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1–3
	(tonnes in millions)											
Export—pipeline	40	42	46	12	12	12	13	48	13	13	13	38
Export—rail	4	5	5	2	2	1	2	6	2	2	2	7
Export—other, including multimodal	8	10	9	2	2	2	3	9	3	3	3	8
Total transport to export destinations	**52**	**56**	**60**	**16**	**16**	**15**	**17**	**63**	**18**	**17**	**18**	**53**

Source: Argus

Outlook

Kazakh exports of oil and condensate are expected to increase as a result of increasing oil production, further growth at existing oil fields such as Tengiz and the start-up of production at new projects, such as the Kashagan field, according to Argus. While a number of pipeline and other schemes, including expansion of the Caspian Pipeline Consortium, are currently under discussion, there is considerable uncertainty about whether any of the proposed schemes will be implemented.

Kazakhstan oil product transportation

Substantially all oil products produced in Kazakhstan are transported by rail.

	2005	2006	2007	2008					2009			
				Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q1-3
	(tonnes in millions)											
Total	**12**	**12**	**13**	**4**	**4**	**3**	**3**	**14**	**3**	**4**	**4**	**11**

Source: Argus

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

Name	Year of birth	Current position	Since
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 and as a member of the remuneration committee in March 2008. Mr. Eliseev has also been chairman of the board of directors of New Forwarding Company since 2003 and chairman of the board of directors of Sevtekhnotrans 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 finally 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 OOO Firma 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, a Financial Director of OOO Logistika i Transport since 2007, and a member of the Board of Directors of OAO Financial Company Brisant since 1999.

Mr. Eliseev is also one of the major shareholders of the Company, with 49 per cent. beneficial ownership of the shares in Envesta Investments Limited, which is a company organised and existing under the laws of Cyprus (***EIL***).

Mr. Michael Zampelas—Member of the Board of Directors

Mr. Zampelas was appointed as a senior independent non-executive member of the Board of Directors, as Chairman of its audit committee and as a member of the remuneration and nomination committees 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 the elected mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus, a 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.

Since March 2008 he has held 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 and as Chairman of its remuneration and nomination committees 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 is a member of the Swiss Fiduciary Association. He started his career in 1957 with Union Bank of Switzerland in Geneva and became a financial analyst. In 1970 Dr. Durrer founded his own company, Fidura Treuhand AG, which provides bookkeeping, auditing, and financial services to real estate companies. Dr. Durrer is the former president of the oil company Montafan AG, and a former board member of the transport company IMT-Dienst AG. He is currently 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 and as a member of its audit committee in March 2008. She also acts as the Secretary of the Company. Ms. Nicolaou holds a position as a non-executive director of Global Ports Investments Plc. She is currently the Managing Director/Director of Legal and Corporate Services at Amicorp (Cyprus) Ltd, Nicosia, Cyprus, a 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 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 and as the Company's internal auditor since March 2008. He is currently Financial Manager for TIHL, the Selling Shareholder 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 is a non-executive member of the board of directors of Global Ports Investments Plc and a member of its audit committee. 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's Moscow office from June 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 and as a member of the nomination committee since March 2008. He is currently Finance Manager for Leverrett Holding Ltd, a position he has held since May 2006. Mr. Loganov also holds the position of non-executive member of the board of directors of Global Ports Investments Plc and the chairman of its audit committee. Mr. Loganov joined the Group in June 2004 as a finance manager at 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 since March 2008. 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. He currently serves as Chairman of Presidium of the non-profit partnership Council of the Market of Railway Rolling Stock Operators Services.

Mr. Maltsev beneficially owns 51 per cent. of the shares in EIL, one of the major shareholders of the Company.

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 New 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 Offering Memorandum, the senior management, by function, of the Group is set out below.

Name	Year of birth	Current position	Since
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 Offering Memorandum, 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 OOO MMK Trans between 2000 and 2002 as head of Internal Transportation Department and between 2002 and 2003 as head of Railway Wagons Department. Prior to joining the Group he also worked at OOO Transgarant NPK in 2003 as General Director. Between 2002 and 2003, prior to his appointment, he worked for New Forwarding Company 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, the Group's Deputy Chief Executive Officer of Business Development, 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, the Group's Deputy Chief Executive Officer of Operations, 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. He graduated from the Tsiolkovsky Moscow State Aviation Technology University with honours and a master's degree in technology. Mr. Dudinskiy has also completed an Economics and Finance Director course at the Institute of Business Administration of the Academy of National Economy for the Government of the Russian Federation. Mr. Dudinskiy worked as Commercial Director of OOO MMK-Trans from June 2005 until December 2006 and 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 the Group's establishment. He acted as head of the finance department at Sevtekhnotrans between June 2003 and October 2003. Mr. Shenets has more than eight years' experience in finance, with more than five 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. 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 June 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 eleven years of management experience in finance. He studied at the Plekhanov 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 School of Business. Prior to joining the Group, Mr. Goncharov worked as Finance Director of OOO Firma Transgarant from December 2005 until June 2007, and prior to this he worked for ZAO Severstaltrans as Head of the Finance Department from March 1998 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 systems 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 position of majority shareholder and General Director of OOO KARDINAL Soft, since June 2000; and majority shareholder and General Director of OOO Firma KARDINAL, since June 1992.

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 2008 (9 persons), 2007 (9 persons) and 2006 (9 persons) was USD 4,700 thousand, USD 7,477 thousand and USD 1,400 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. The total remuneration received by the members of the Board of Directors amounted to USD 305 thousand for the year ended 31 December 2008. No compensation was paid to the members of the Board of Directors for the years ended 31 December 2007 and 2006.

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.

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 terms of reference of the Committees is set out below.

Audit Committee

The audit committee comprises two directors, one of whom is independent, and meets 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, among other matters: (i) the integrity of the Company's Consolidated 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 meets at least once each year with four meetings scheduled to take place in 2009. 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 meets at least once each year with four meetings scheduled to take place in 2009. 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, among 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. In May 2008, upon admission by the FSA in its capacity as competent authority under the Financial Services and Markets Act (***FSMA***) to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 116,959,064 shares in the form of global depositary receipts to be issued from time to time against the deposit of Ordinary Shares with the depositary, the Company conducted a public offering of GDRs on the London Stock Exchange. In connection with such public offering, the Company sold 16,959,064 GDRs, and TIHL and EIL together sold 18,543,791 GDRs, including GDRs sold pursuant to an over-allotment option granted by EIL in May 2008 in the course of the public offering. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". 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 SHAREHOLDERS AND THE SELLING SHAREHOLDER

The following table sets forth the beneficial ownership of the Ordinary Shares of the Company by its principal shareholders immediately prior to the Offering and Contribution and immediately following the Contribution and the Offering, assuming the Over-Allotment Option is exercised in full. Immediately following the Offering and the Contribution, 36.59 per cent. of the Ordinary Shares will be held in the form of GDRs. Not taking into account the Ordinary Shares held in the form of GDRs by EIL and entities controlled by the beneficial owners of EIL and TIHL, and assuming the Over-Allotment Option is not exercised, these GDRs will represent 33.99 per cent. of the Company's issued Ordinary Share capital following the Contribution and the Offering (35.17 per cent. assuming exercise in full of the Over-Allotment Option).

	Immediately prior to the Offering		Immediately following the Offering and the Contribution[5]		Immediately following exercise of the Over-Allotment Option[5]	
Shareholder	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**
Transportation Investments Holding Limited[(1)(2)(4)]	58,596,486	50.1%	81,093,812	51.3%	79,225,898	50.1%
Envesta Investments Ltd.[(3)(4)(5)]	22,859,718	19.5%	23,289,718	14.7%	23,289,718	14.7%

(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) Includes 5 Ordinary Shares held by companies affiliated with TIHL and wholly owned by the beneficial owners of TIHL.

(3) 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". Of these Ordinary Shares, 1,807,086 are held in the form of GDRs.

(4) TIHL and EIL are parties to a shareholders agreement described more fully below.

(5) Includes 430,000 GDRs owned by entities controlled by the beneficial owners of EIL following the Offering.

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.

TIHL has pledged 28,187,129 Ordinary Shares to VTB Bank (Deutschland) AG to secure an existing loan facility extended by VTB Bank (Deutschland) AG to TIHL.

EIL has pledged 8,400,000 Ordinary Shares to OAO "Swedbank" to secure an existing loan facility extended by OAO "Swedbank" to EIL. In the event of a foreclosure on the pledge, the lender has the right to put such Ordinary Shares to TIHL.

TIHL and EIL are parties to a shareholders agreement (which they intend to amend and restate) on the terms described below, which governs the relations between the parties in relation to the governance of the Company and its Russian subsidiaries, limits the rights of either party to transfer Ordinary Shares to any person other than to an affiliate or the other party (other than in offerings to the public made on the same terms by both shareholders) and prohibits any party from acquiring Ordinary Shares, including GDRs, from the public unless such acquisition is pro rata to such party's existing shareholdings.

The Shareholders Agreement, when amended, will provide that the business of the Company will be conducted on the basis of sound commercial profit-making principles with the aim of generating the maximum maintainable profits available for distribution. With respect to the Board of the Company, it will provide for the nomination and appointment to the Board of three directors by TIHL and two directors by EIL, as well as the appointment of two independent directors. With respect to the board of the Russian subsidiaries, it will provide for the nomination and appointment to such boards of five directors by TIHL and two directors by EIL. The general director of the Russian subsidiaries will be appointed by EIL and the chief financial officer by TIHL. Certain matters with respect to subsidiaries of the Company, such as the amending of constitutional documents, reorganisations, liquidations, dividends, disposals of shares, establishing new subsidiaries and electing and terminating the chief executive officer and any director require the approval of both TIHL and EIL. It is also envisaged that each of them will not vote to approve, without the approval of the other, any amendments to the Company's constitutional documents, any proposal to wind up or liquidate the Company or any proposal to seek relief for the Company under any bankruptcy, insolvency or similar law. The provisions of the Shareholders Agreement will not apply to the governance and business of BTS which is expected to be covered by a shareholders agreement between Ingulana Holdings Limited, the holding company for BTS, and its minority shareholder.

The Shareholders Agreement in its current form permits, and as amended and restated will continue to permit, the sale of all a party's interest to a third party (or, if less than all, an amount not less than at least 30 per cent. of all the issued Ordinary Shares), subject to the rights of first refusal and tag along rights as well as the third party agreeing to be bound by the Shareholders Agreement. If a party proposes to sell to a third party, then each other party to the agreement has a right of first refusal to acquire the selling party's interests at the third party price. In addition, such other party, if it does not exercise its right of first refusal, has tag along rights to require, as a condition to the sale to the third party, that such third party also acquire its interest on the same terms. The agreement also includes a "shoot out" provision under which, if one party offers to buy out the other party's interest at a specified price, such other party has the option of either accepting that offer or acquiring the offering party's interest at the same price as provided in the initial offering party's offer.

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 "Plan of Distribution", the Contribution and Subscription Agreement referred to in "Contribution of BTS" and the contracts described below.

On 29 November 2009, the Company and TIHL entered into the Contribution and Subscription Agreement providing for the contribution of TIHL's interest in BTS to the Company in exchange for Ordinary Shares as described in "Contribution of BTS". The Contribution and Subscription Agreement is conditional upon the Offering and the delivery of the Cypriot valuation report in accordance with Cypriot law, and contains business representations and warranties from TIHL regarding BTS. TIHL's liability in respect of these representations and warranties is limited to the aggregate value of the Ordinary Shares (at the Offer Price) issued to, or at the direction of, TIHL in respect of the Contribution. See "Contribution of BTS".

In December 2008, the Company entered into share purchase agreements with TIHL in respect of 61 per cent. share in Spacecom and 65 per cent. share in Intopex Trans. The combined price of these transactions amounted to USD 79.0 million. According to the share purchase agreements the consideration amounting to USD 79.0 million was payable in several instalments with the last instalment due no later than by 1 November 2010. In accordance with such share purchase agreements an interest of 15 per cent. per annum is accrued on the outstanding amount starting from 1 June 2009. In February 2009 the Board of Directors of the Company entered into additional agreements to the share purchase agreements regarding the purchase of shares in Spacecom and Intopex. Pursuant to those additional agreements the Company received the right to settle the instalments ahead of schedule and TIHL agreed to offer a discount on the total purchase price should such early settlement be made by the Company. The Company has settled the instalment which was due no later than 1 May 2009 on 11 February 2009 and as a result received a discount from TIHL on the total purchase price of Spacecom and Intopex Trans of USD 195 thousand and USD 22 thousand respectively. In September 2009, the Company and TIHL amended the schedule of payments to permit the Company to settle USD 25 million which was due in 2010 plus interest accrued on that amount in September 2009, and an additional instalment of USD 7 million plus interest accrued thereon in October 2009. Both of these warrants have been paid. According to the amended schedule, the remaining balance of USD 7 million plus interest is payable no later than 1 May 2010.

In connection with the IPO, in April 2008, the Company entered into an underwriting agreement with the Selling Shareholder, EIL and Deutsche Bank AG, London Branch and Morgan Stanley International Co. plc on substantially similar terms as the Underwriting Agreement referred to in "Plan of Distribution", and, in May 2008, the Company entered into the Deposit Agreement with the Depositary, described in "Terms and Conditions of the Global Depositary Receipts".

Except as set out above, the Group believes that none of the members of the Group had any material contracts during the three years prior to the date of this Offering Memorandum.

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 Offering Memorandum, the Group has entered into a number of transactions with third parties under common control with, or otherwise related to, the Group, 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 year ended 31 December 2006, the Group sold rolling stock to BTS, a company under common control with TIHL. The sale proceeds amounted to USD 7,164 thousand in the year ended 31 December 2006. The Group believes that such sales were effected at market prices and otherwise on arm's length terms in all material respects.

Services to related parties

During the three years prior to the date of this Offering Memorandum, 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 Offering Memorandum, the Group provided rail transportation services to OOO MMK-Trans, recording revenue of USD 30,520 thousand, USD 46,476 thousand, USD 25,609 thousand and USD 1,922 thousand in six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006, respectively, from the provision of these services. The Group believes that rail transportation services were provided to OOO MMK-Trans 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 Offering Memorandum, the Group provided rail transportation services to ZAO Severstaltrans, recording revenue of USD 824 thousand, USD 80,135 thousand and USD 70,819 thousand in the years ended 31 December 2008, 2007 and 2006, 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 Offering Memorandum, the Group provided rail transportation services to Intergate AG, recording revenue of USD 1,020 thousand, USD 6,300 thousand, USD 17,952 thousand and USD 21,145 thousand in the six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006, 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.

BTS

BTS is a subsidiary of TIHL. During the three years prior to the date of this Offering Memorandum, the Group provided leases of rolling stock to BTS, recording revenue of USD 2,408 thousand, USD 7,837 thousand, USD 5,688 thousand and USD 5,553 thousand and in the six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006, respectively, from the provision of these services. The Group believes that rail transportation services were provided to BTS on arm's length terms in all material respects.

Transoil

Transoil is a company under common significant influence with the Group. The Group provided operating leases of rolling stock to Transoil, recording revenue of USD 8,510 thousand, USD 17,012 thousand and USD 6,521 thousand in the six months ended 30 June 2009 and the years ended 31 December 2008 and 2007 respectively 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 year ended 31 December 2006. The Group provided rail transportation services to Transgarant and Transgarant-Vostok, recording aggregate revenue of USD 499 thousand in the year ended 31 December 2006 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 year ended 31 December 2006. During that year, the Group provided rail transportation services to Karelsky Okatysh, recording revenue of USD 1,632 thousand in the year ended 31 December 2006 from the provision of these services.

AS Vopak E.O.S.

AS Vopak E.O.S. is an entity under influential control by TIHL. During the years ended 31 December 2008 and 2007 Estonian subsidiaries of the Group provided rail transportation services to AS Vopak E.O.S., recording revenues of USD 12,944 thousand and USD 19,855 thousand respectively in the years ended 31 December 2008 and 2007, respectively. The Group believes that rail transportation services were provided to AS Vopak E.O.S. on arm's length terms in all material respects.

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's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments"). As at the date of this Offering Memorandum, the Group does not have any finance leases to related parties.

Services and leases from related parties

During the three years prior to the date of this Offering Memorandum, 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 six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006 was USD 6,876 thousand, USD 20,762 thousand, USD 42,171 thousand and USD 68,444 thousand, respectively. The Group believes that the services provided by, and the leases from, OOO MMK-Trans were on arm's length terms in all material respects.

ZAO Severstaltrans

During the years ended 31 December 2008, 2007 and 2006, 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". The aggregate cost of such services incurred by the Group in the years ended 31 December 2008, 2007 and 2006 was USD 1,122 thousand, USD 4,683 thousand and USD 4,040 thousand, respectively. The Group believes that such leases and services were provided on arm's length terms in all material respects.

Transgarant-Vostok

During the year ended 31 December 2006, the Group received transportation services from Transgarant-Vostok. The aggregate cost of such services incurred by the Group in the year ended 31 December 2006 was USD 192 thousand. The Group believes that such services were provided on arm's length terms in all material respects.

Transgarant

During the year ended 31 December 2006, the Group received transportation services from Transgarant. The aggregate cost of such services incurred by the Group in the year ended 31 December 2006 was USD 438 thousand. The Group believes that such services were provided on arm's length terms in all material respects.

BTS

During the six months ended 30 June 2009 and the years ended 31 December 2008, 2007 and 2006 BTS leased rolling stock to the Group. Operating lease costs incurred by the Group in the years ended 31 December 2008, 2007 and 2006 were USD 360 thousand, USD 5,430 thousand, USD 3,880 thousand and USD 3,726 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 and 2006, when OAO Severstal was an entity under common significant influence with the Group, OAO Severstal leased rolling stock to the Group. Operating lease costs incurred by the Group in the years ended 31 December 2007 and 2006 were USD 3,155 thousand and USD 9,659 thousand, respectively. The Group believes that operating leases of rolling stock were on arm's length terms in all material respects.

OOO ARZ-6

During the six months ended 30 June 2009 and the years ended 31 December 2008 and 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 134 thousand, USD 523 thousand and USD 1,677 thousand respectively during those periods. The Group believes that the lease was on arm's length terms in all material respects.

OOO Business Centre Elokhovskiy

During the six months ended 30 June 2009 and the year ended 31 December 2008, the Group leased office space from OOO Business Centre Elokhovskiy, an entity controlled by beneficial owners of EIL, and incurred rental costs in the amount of USD 1,025 thousand and USD 2,050 thousand, respectively, during those periods. The Group believes that the lease was on arm's length terms in all material respects.

OOO New Wagonrepair Company

During the six months ended 30 June 2009 and the year ended 31 December 2008, the Group purchased rolling stock repair services from OOO New Wagon Repair Company, an entity under common control with the Group, and incurred costs in the amount of USD 2,375 thousand and USD 1,586 thousand, respectively, during those periods. The Group believes that the services were provided on arm's length terms in all material respects.

ZAO Ural Wagonrepair Company

During the six months ended 30 June 2009 and the year ended 31 December 2008, the Group purchased rolling stock repair services from ZAO Ural Wagonrepair Company, an entity under common control with the Group, and incurred costs in the amount of USD 1,445 thousand and USD 1,411 thousand, respectively, during those periods. The Group believes that the services were provided 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 if the beneficial owners of TIHL, is a member of senior management.

Purchases of rolling stock from related parties

During the years ended 31 December 2008, 2007 and 2006, the Group purchased used rolling stock from the following related parties.

OOO MMK-Trans

During the years ended 31 December 2008, 2007 and 2006, the Group purchased rolling stock from OOO MMK-Trans in the total amount of USD 6,561 thousand, USD 2,420 thousand and USD 1,544 thousand, respectively. The Group believes that such rolling stock purchases were on arm's length terms in all material respects.

ZAO Severstaltrans

During the years ended 31 December 2008, 2007 and 2006, the Group purchased rolling stock from ZAO Severstaltrans in the total amount of USD 3,862 thousand, 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 length terms in all material respects.

Interest expense

TIHL

During the six months ended 30 June 2009, the Group accrued interest on the outstanding amount of consideration payable to TIHL for the 61 per cent. share in Spacecom and the 65 per cent. share in Intopex Trans in the total amount of USD 482 thousand and USD 540 thousand on outstanding shareholder loans.

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 and 2006 was USD 50,000 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 fully repaid this loan out of the proceeds of the IPO. 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. The Estonian subsidiaries of the Group also received interest-bearing unsecured loans from TIHL. The total principal amount of these loans as at 30 June 2009 and in the years ended 31 December 2008 and 2007 was USD 3,000 thousand, USD 15,562 thousand and USD 25,367 thousand respectively. The loans bear interest at the rate of 12 per cent. per annum.

Other related party transactions

ZAO Ural Wagonrepair Company

In January 2008 ZAO Ural Wagonrepair Company repaid the outstanding balance of a loan in the amount of USD 3,128 thousand. The Group believes that such loan was made on arm's length terms in all material respect.

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 proprietary and certain non-proprietary relations between parties of any type, including individuals and legal entities. In particular the Civil Code establishes (i) the rules for obtaining and transferring ownership of movable and immovable property; (ii) the basic 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 framework for the functioning of railway transport in relation to:

  (i) principles and aims of the state regulation of railway transport;

  (ii) regulatory requirements applicable to organizations working in the railway transport sector and to railway transport facilities;

  (iii) safety requirements; and

  (iv) other issues.

- 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 all types of relations between shippers, passengers, consignors, consignees, owners of railway transport infrastructure and other participants in railway transport services, including the principal terms and conditions for transportation services, liability issues for each of the participants and procedures for claims and for dispute resolution.

- Federal Law "On Natural Monopolies" No 147-FZ dated 17 August 1995, as amended (the ***Natural Monopolies Law***)

  The Natural Monopolies Law defines the legal basis of the federal policy with respect to natural monopolies in the Russian Federation and aims at achieving a balance of interests of consumers and natural monopolies. In accordance with this law the core services provided by Russian Railways are classified as belonging to the natural monopoly sector and the prices (tariffs) charged by Russian Railways for such services are regulated by the state.

- Federal Law "On Forwarding Services" No. 87-FZ dated 30 June 2003, as amended (the ***Forwarding Law***):

  The Forwarding Law specifies the rules applicable to freight forwarding services. This law defines the rights and obligations of the parties to a freight forwarding contract, sets out liability triggers and provides for certain rules in relation to claims and the resolution of disputes arising out of a freight forwarding contract.

- Federal Law "On Licensing of Certain Types of 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 the Rules on Forwarding Services" No. 554 dated 8 September 2006, as amended (the ***Forwarding Services Rules***):

  The Forwarding Services Rules set out the list of forwarding documents which constitute integral parts of contracts, the procedure for rendering forwarding services, and the requirements of the quality of these services.

- Government Regulation "On the Programme of Structural Reform of Railway Transport" 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 State Regulation and Control of Tariffs, Fees and Duties in Relation to Works (Services) Provided by Natural Monopolies Entities in the Sphere of Railway Transportation" No 643, dated 5 August 2009 (the ***Regulation on Natural Monopolies Tariff***):

  This regulation determines: (a) the aims, principles and methods of the state regulation of tariffs for the services provided by Russian Railways as a natural monopoly; (b) the rules for determination of tariffs; and (c) the rules of control over their determination and application.

- Federal Energy Commission Regulation "On approval of the price list No. 10-01 "Tariffs for Freight Transportation 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 described below (see "—The Pricing Policy").

- Ministry of Railway Transport Instruction "On Work Performance for the Establishment of Certification System" No. 166u dated 12 November 1996, as amended (the ***Railway Transport Certification Rules***), which approves Rules of Certification of the Federal Railway Transport of Russian Federation, Main Provisions (P SSFZT 01-96).

  The main provisions of the Railway Transport Certification Rules are provided below (see "—Certification of Cars").

- Government Regulation "On Approval of the Rules on Rendering the Services on Common Railway Carrier Infrastructure" No. 703 dated 20 November 2003 and the Ministry of Transport Order "On Approval of Rules for Freight Transportation in the Trains Composed of Locomotives and Cars Owned or otherwise possessed by Dispatchers, Cargo Consignees or Other Legal Entities or Individuals Which are not Railway Carriers Themselves" No. 150 dated 22 October 2007 (the ***Rules for Freight Transportation***):

  The Rules for Freight Transportation regulate the procedure and terms of cargo railway transportation by trains formed of locomotives and cars which are not owned by the railway carrier and provide legal grounds for the use of the railway infrastructure by railway operators.

  There are a number of other orders and decrees issued by the Ministry of Transport of Russia, the Federal Agency for Railway Transport and Russian Railways and the Ministry of Railways of Russia which provide detailed regulation of the relationships between the carriers, dispatches, cargo consignees and Russian Railways and set out a contractual framework for such relationships.

INTERNATIONAL AGREEMENTS

Russia is party to international agreements governing railway transportation. In particular, the Agreement on International Railway Cargo Communication applies in Russia, which provides for a direct railway communication for transportation of cargoes among the railways of 22 countries of Europe and Asia. In February 1993 Russia joined the Tariff Agreement of CIS Railway Administrations, as amended ("Tariff Agreement"), which sets out a general procedure to adopt annually maximum freight tariff levels for the international transit through the CIS territory. This Tariff Agreement regulates relations between CIS railway administrations (such as Russian Railways in Russia). Only railcars directly owned by Russian Railways fall under this Tariff Agreement. Also, in July 2009 Russia joined the Convention concerning International Carriage by Rail (COTIF), the provisions of which apply on certain routes.

The Regulatory Bodies

The principal regulatory bodies

At the federal level, regulatory powers over the Russian railway industry are divided between several ministries:

- the Ministry of Transport, which is responsible for the development of governmental policy and legal and regulatory standards in the transport sector of the Russian economy;
- the Ministry of Economic Development, which approves: (i) strategic plans for social and economic development; (ii) the list and order of determination of the indexes of economical efficiency for the open joint-stock companies whose shares are owned by the Russian Federation, to which Russian Railways belongs; and (iii) opinions on drafts of the legal acts which regulate business entities or their relationships with the Russian Federation and which also affect macroeconomic indicators of the Russian Federation; and
- the Ministry of Finance, which determines the taxation policy of the Russian Federation, 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 the authority to exercise control over management of state property or to provide state services. These matters are under the jurisdiction of federal services and agencies. The Russian railway industry is influenced by a number of federal services and agencies and primarily by:

- the Federal Agency for Railway Transport, which implements government polices 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 FST, 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 by railway transport companies, including Russian Railways, with the antimonopoly law of the Russian Federation.

The federal services and agencies listed above directly regulate and supervise the Russian railway industry. There are certain other government bodies which, together with their sub-divisions, exercise general regulatory functions, in the spheres of emergency procedures, customs, taxation and others, and thereby may affect the Group's business.

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.

Russian Railways also performs some regulatory functions in the Russian railway industry: it certifies rail cars and locomotives, issues approvals for the use of locomotives on particular routs, 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 reform commenced in 2001 with the enactment of the Programme. The main objectives of the reform set out in the Programme were to:

- satisfy the growing demand of the Russian economy for transportation services, both in traffic volume and in quality;
- renew and upgrade assets;

- increase efficiency of asset utilisation;
- provide better incentives to industry employees;
- attract investments for the renovation of the railcar and locomotive fleet; and
- increase efficiency of infrastructure.

The Programme envisaged that the reform of the rail industry (the ***Reform***) would comprise three stages: (i) a preparatory stage and the establishment of Russian Railways, which was completed in 2003; (ii) the set up of subsidiaries of Russian Railways and the spin-off of its competitive businesses to such subsidiaries; this stage is not yet completed; and (iii) the development of competition and the attraction of investments to the newly-developed subsidiaries. While the Programme contemplated completion of the third stage by 2010, that stage's implementation has not yet started. According to media, the Ministry of Transport and Russian Railways are currently debating the status of the Reform. Russian Railways would prefer that the Reform be ended without further implementation; however, the Ministry of Transport considers the Reform on-going and anticipates its completion in 2015.

First stage: Preparation for the Reform

The first stage of the Reform assumed the separation of the regulatory and the business functions of the Russian railway system, and the creation of the necessary legal framework. The Ministry for Railway Transport carried out both of these functions until the completion of the first stage in 2003, when Russian Railways was created and the number of private companies participating in the freight rail market was increased.

Second stage: Corporate build-up and encouragement of competition

The second stage of the Reform involves restructuring Russian Railways with a view to separating out activities, which may become competing businesses, into the newly-established subsidiaries of Russian Railways, has yet to be completed. The wholly-owned subsidiaries would engage long-distance and suburban passenger transportation services, freight transportation (the role carried out by Freight One), container transportation (the role carried out by TransContainer), refrigerator transportation, repairs and maintenance and non-core businesses which are not connected with railway carriage/transportation. This stage has yet to be completed.

The Reform provided that the first activities to be split off at this stage would be transit, intermodal and refrigerator freight transportation services. The activities to be split off from Russian Railways would be long-distance and suburban passenger transportation services, repairs and maintenance of rolling stock and passenger services. The enterprises operating in the social sphere and construction, telecommunications and real estate are to be divested closer to the completion stage.

The Reform also provides for the development and implementation of measures necessary to enhance the effectiveness of passenger transportation operations and to decrease cross-subsidies at the expense of freight traffic. The aim of these measures is to create 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 aims to create conditions under which private operators can own and operate their own locomotives, and to increase 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 purpose of the second stage is to create conditions to encourage 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 outlined in the Programme assumes the further development of competition in passenger and freight transportation. This development includes 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, and the issuance of licences to operators that can provide long-distance and suburban passenger transportation services. Furthermore, the Programme provides for the incorporation of a Russian Railways subsidiary, Federal Passenger Company, which will carry out long distance passenger transportation services, and for the partial sale of the shares of subsidiaries of Russian Railways which operate repair facilities and other non-core businesses.

ROLLING STOCK OPERATORS

The Group's business includes providing rolling stock for use on the Russian railway system, which is regulated by the Railway Transport Law.

Under the Railway Transport Law, a rolling stock operator is a legal entity or an individual entrepreneur that owns or otherwise possesses railcars, and which provides its rolling stock for use on the basis of an agreement with a carrier. Rolling stock operators may also provide either their own or leased locomotives, or may rely on locomotives provided by Russian Railways. The number of private locomotive operators is currently limited because of a deficit of available locomotives on the market, a lack of a well developed traffic controlling system and insufficient skill in transportation of the significant volume of cargo in traffic.

Current Russian legislation does not clearly specify the characteristics of rolling stock operators' activities. This causes some uncertainty in determining whether a company holds the legal status of a rolling stock operator. Current legislation draws a distinction between rolling stock operators, which own cars, and carriers, which assume an obligation to move cargoes from one point to another on the railway network. Rolling stock operators are also differentiated from the owners 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 creation of transportation agreements between its customers and Russian Railways. As a monopoly carrier, Russian Railways cannot refuse to conclude carriage agreements with the clients of other rolling stock operators, such as the Group, or to prefer its own clients to those of other rolling stock operators.

CERTIFICATION OF CARS

The Railway Transport Law also requires the certification or declaration 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, the rolling stock must be inspected at least once a year to ensure the compliance of certified rolling stock with the 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 certificate will be suspended until the certificate holder is able to cure the problem. If the problem is not cured in due course, the certificate may be revoked.

LOCOMOTIVE USE AND OPERATION ACTIVITIES

Russian legislation on the use of locomotives owned by private rolling stock operators consists of several general and special laws together with subordinate acts. This legislation is inconsistent, incomplete and ambiguous in relation to procedures for the operators to use their own locomotives.

Private rolling stock operators may own, lease from third parties or otherwise possess locomotives. A locomotive may be used only if a conformity certificate has been issued for it under the respective certification system of federal railway transport of the Russian Federation.

In order to access the public railways infrastructure, the owner of a private (non-public) railway and the owner of railway cars and locomotives must agree with Russian Railways (as the owner of public railways) on the technological operating conditions for the private train formation. The locomotive owner must obtain a consent to use the relevant railway of Russian Railways for each trip, or series of trips, made by its private locomotive. Also, the locomotive owner must conclude agreements with Russian Railways on technical maintenance, on-going repairs and locomotive operation.

Russian Railways provides crews for locomotives and locomotive repairs. The tariffs for both services are not regulated by FST but are set out in the Regulation of Russian Railways No. 2328r dated 30 December 2005.

Russian Railways has indicated that it does not fully support the introduction of private locomotive operators because of the competition private operators will pose to its own business, and because it must share tariffs with such operators. However, despite the many proposals to change the current legal structure of locomotive operations, no significant changes to the existing legal regime are expected. If such changes are introduced, they may have an impact on current legal practices and the Group's business.

ROLLING STOCK LEASING[1]

The business activities of the Group include leasing rolling stock such as locomotives. Leasing activities are regulated by the Civil Code, which provides that rolling stock is movable property and may be leased pursuant to a lease agreement. Russian law does not require the registration of leases of rolling stock and the commercial terms and conditions of such leases are not subject to state regulation.

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. The Russian Forwarders Association, a non-governmental organisation, has also adopted non-binding general terms of forwarding.

Forwarding services include organising cargo transportation, facilitating carriage agreements, supporting cargo shipments and receipts and certain other services ancillary to cargo transportation. The Forwarding Law imposes liability on a forwarder for failure to perform or improper performance of its obligations. This liability is limited in most cases to the actual damage resulting from such failure to perform or improper performance. The law also provides for a one-year limitation period on claims in relation to forwarding services. Prices for forwarding services are currently not state-regulated.

LICENSING

The Law on Licensing sets the requirements for obtaining licences in respect of certain activities, including railway transportation of cargoes.

New Forwarding Company obtained a freight rail carrier licence on 26 September 2008 which is valid through 26 September 2013. However, New Forwarding Company does not operate as a carrier. In the absence of appropriate legal regulation and of a practice of interaction between license holders and Russian Railways, the license holders cannot complete agreements with Russian Railways to allow access to the railway infrastructure and do not actually operate as carriers.

THE PRICING POLICY

According to the Programme, the main aim of the tariff policy for the Russian railway industry is to ensure the development of competition in the provision of railway transport service providers and to ensure non-discriminatory access to the 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 FST or the Russian Ministry of Transport (in case of international transit), or as a response to a request from the Russian Ministry of Transport, a state authority or a company.

Generally, the tariffs which apply to the transportation-related services provided by Russian Railways are established by FST, 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 component of the tariff is set by FST for all market participants, including Russian Railways and private operators, the railcar component established by FST applies only to 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 Russian Railways railcar tariffs set by FST as a benchmark.

The infrastructure and locomotive tariff varies depending on whether the train formation has a private locomotive or a locomotive owned by Russian Railways. In circumstances where the locomotive is owned by a private operator, the tariff imposed is less than the tariff imposed when the locomotive is owned by Russian Railways.

The tariffs charged by Russian Railways primarily depend on the distance, cargo class and type of destination, such as whether the freight is being transported from Russia abroad by rail, or whether the freight is being transported within Russia, including transportation to and from the sea ports. There are three classes of cargo, whereby Class 1 cargo attracts the lowest tariff and Class 3 cargo attracts the highest

(1) The Group's Estonian Subsidiaries are involved only in the leasing of railcars, which, under Estonian law, does not require any specific consents, certificates, licenses or permits. Furthermore, Estonia does not regulate the pricing of leasing of railcars.

one. The cargoes transported by the Group fall mostly into Class 2 (oil and oil products) and Class 3 (metals). See "Russian Rail Transportation Market—Pricing in the Russian Railcar sector".

The Russian government periodically approves certain parameters for economic growth, including a yearly tariff adjustment for the services of natural monopolies such as Russian Railways. In accordance with the approved parameters, FST increased the tariffs on railway services during 2009 by 10.7 per cent. (a 5 per cent. increase from 10 January 2009 and an additional 5.7 per cent. increase from 1 July 2009).

The formation of Freight One has improved the competitive environment in the railway transportation sector and has led to the liberalisation of price setting. Freight One is not subject to FST regulation of railcar charges. In the future, the tariffs charged for railway transportation are to become more aligned to market rates.

Pursuant to the Reform, Russian Railways plans to establish the Second Freight Company (***Freight Two***) to which Russian Railways is supposed to transfer up to 230 thousand of their railcars. The market considers that establishment of Freight Second will stimulate competition on the railway operators market. The timing for the establishment of Freight Two has not been determined.

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 Offering Memorandum and certain requirements of Cypriot legislation. Holders of New GDRs will be able to exercise their rights with respect to the Ordinary Shares underlying the New 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, among 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 the Selling Shareholder. 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 the Selling Shareholder 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 USD 11,695,906.40 divided into 116,959,064 ordinary shares of USD 0.10. On 19 March 2008, the Selling Shareholder agreed, with EIL's consent, to transfer 1 share each to Valleyfield Investments Limited, Stoneyford Investments Limited, Webeck Holdings Ltd (Stoneyford Investments Limited and Webeck Holdings Ltd transferred their two shares of the Company to Leverret Holding ApS and Leveret Holding Limited), NCC Pacific Investments Limited, and National Container Holding Company Limited (all owned, directly or indirectly by the Selling Shareholder). The Board of Directors approved the transfer of shares from the Selling Shareholder to Valleyfield Investments Limited, Stoneyford Investments Limited, Webeck Holdings Ltd, NCC Pacific Investments Limited, and National Container Holding Company Limited. Transfers to Leverret Holding ApS and Leveret Holding Limited did not require the approval of the Company's board of directors.

On 23 November 2009, the Company increased its authorised share capital from USD 11,695,906.40 divided into 116,959,064 ordinary shares with a par value of USD 0.10 per share to USD 23,391,812.80 divided into 233,918,128 ordinary shares with a par value of USD 0.10 per share. On 23 November 2009, the Company resolved that the pre-emption rights of existing members of the Company in relation to the 116,959,064 ordinary shares in the company valued at USD 0.10 each be disapplied in accordance with Article 16 of the Articles of Association, and Section 60B.(5) of the Companies Law, CAP.113 (as amended), for a period of twelve months from the date of the resolution, and that those shares be available to allotted to such persons as the board of directors of the Company may choose from time to time, in order to give effect to the Company's investment programme and for general working capital purposes, and for such consideration as the board of directors of the Company may choose.

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 Thomaides 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 Offering Memorandum, the Company's issued share capital consisted of 116,959,064 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of to 233,918,128 Ordinary Shares. Assuming 41,176,469 Ordinary Shares are issued in connection with the Contribution and the Offering the Company's issued fully paid share capital immediately following the Contribution and the Offering will be 158,135,533 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 upon expiration of the twelve-months' disapplication period, unless the Company resolves otherwise. 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:

(a) increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;

(b) consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;

(c) 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

(d) 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:

(a) divide among 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

(b) 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, including an independent non-executive director. 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. The Company's terms of reference of the board of directors provide that notice of a meeting be provided to directors seven days in advance, and that the supporting materials and agenda be provided five days in advance of a proposed meeting of the board. The directors may waive these terms of reference.

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:

(a) becomes bankrupt or makes any arrangement or composition with his creditors generally; or

(b) 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

(c) becomes of unsound mind; or

(d) resigns his office by notice in writing to the Company; or

(e) 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:

(a) 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

(b) 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

(c) any contract for the countersignature or subscription by any director in relation to shares or debentures of the Company; or

(d) 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. On 20 August 2008, the Company adopted the Code of Practice on Dealings in Securities which regulates insider dealings in GDRs. This code requires that when directors intend to purchase GDRs in the Company, they must first seek approval of the board of directors. Dr. Hans Durrer obtained such approval and acquired 100, 000 GDRs, all of which are currently held by him.

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:

(a) in the case of a meeting called as the annual general meeting, by all the shareholders entitled to attend and vote; and

(b) 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 dissapplication 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 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.

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 dated 7 May 2008, and made between the Company and The Bank of New York Mellon (formerly 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 Mellon 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 US securities exchange or quoted on a US 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.

(iv) (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 depositary, 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: USD 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 USD 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 USD 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: USD 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 USD 0.05 or less per GDR;

(vii) a fee of USD 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 Mellon, 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 New GDRs will be evidenced by (i) the Master Regulation S GDR in registered form and (ii) the Master Rule 144A GDR in registered form. The Master Rule 144A GDR is registered in the name of Cede & Co. as nominee for DTC, and is held by The Bank of New York Mellon in New York as custodian for DTC. The Master Regulation S GDR is deposited with The Bank of New York Mellon, 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 has irrevocably undertaken 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 Exchange Act, 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 New GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Memorandum. 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 New 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 New 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 New 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 Offering Memorandum, 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, subject to 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 New GDR holders, generally 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 the following tax rates:

(a) 3 per cent. on 75 per cent. of certain rental income;

(b) 10 per cent. on interest income not arising in the ordinary course of the business; and

(c) 15 per cent. on dividend income received or deemed to have received from non-Cyprus resident companies.

Defence Tax is levied on the gross amount of 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 recognised 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 the scope of Capital Gains Tax provided that the company which 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. New GDRs are generally accepted as falling within the definition of securities.

The Russia-Cyprus double 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 (***PE***).

Dividends to be received by the Company

Under the Russia-Cyprus double tax treaty, the maximum rate of Russian withholding tax on dividends should be 10 per cent. provided that the Company is the beneficial owner of the dividend income received and does not have a PE in Russia. This rate can be reduced to 5 per cent. if the Company has invested in the capital of a Russian company not less than the equivalent of USD 100,000 (EUR 100,000 as from 1 January 2010).

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. Dividend income received from non-Cypriot resident companies is exempt from Defence Tax, unless the company paying the dividend engages directly or indirectly for more than 50 per cent. in activities which generate 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 that such company is taxed at an effective tax rate of less than 5 per cent.). If the exemption for Defence Tax does not apply, dividends from non-Cypriot resident companies are subject to 15 per cent. Defence Tax. Russian withholding tax as well as the Russian underlying tax (i.e. corporate profit tax of the Russian subsidiary which is paying the dividends), whereas such Russian taxes can be credited against any such Defence Tax payable in Cyprus. This credit should be available provided that the proper documentation can be provided to the Cyprus tax authorities evidencing the fact that the Russian tax was withheld at source and the profit tax suffered in Russia by the company paying the dividend. No assurance can be provided as to whether such credit will be available in practice for a Cypriot company, which receives dividends.

Interest income

Any interest accruing to the Company which is considered to arise in the ordinary course of its business, including interest which is closely connected with the ordinary course of its business qualifies as business income and shall be subject 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 in connection with the provision of loans to related or associated parties should be generally considered as 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.

Any other interest income shall be exempt from the Corporate Income Tax and shall be subject to the Defence Tax at a rate of 10 per cent.

Taxation of income and gains of the New GDR holders

Gains from disposal of New GDRs by the New GDR holders

A gain realised on the sale of New GDRs by a non-resident holder shall not be subject to taxation in Cyprus.

A gain realised on the sale of New GDRs by a resident holder shall be exempt from tax in Cyprus as New GDRs are considered to fall within definition of securities for Cypriot tax purposes.

Dividends to be received by the New GDR holders

Dividends to be received from the Company by non-resident New GDR holders and corporate resident New GDR holders shall not be subject to taxation in Cyprus, either by way of withholding or otherwise.

Dividends to be received from the Company by resident individual New GDR holders shall be subject to Defence Tax at a 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 a deemed dividend to the extent 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 in case of companies) 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 any fair value adjustments to movable or immovable property (if any).

Withholding taxes

No withholding taxes shall apply in Cyprus with respect to payments 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 payments made in favour of Cypriot tax resident individual holders.

Interest expenses

Interest expenses are tax deductible if they are incurred wholly and exclusively for the production of income. However, no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing assets not used in the business. This provision applies until 7 years from the date of purchase of the relevant asset. In this respect, the investment in subsidiary is considered as non-business asset and any interest expense that relates (or deemed to relate) to the acquisition/financing of such assets (even if a subsidiary is to distribute dividends on a regular basis) is considered not to be tax deductible. The restricted interest expense is usually determined by the following apportionment methodology: cost of the investment in shares multiplied by the average interest borrowing rate. This apportionment methodology should also be applied after the lapse of the above-mentioned period based on a circular issued by the Cypriot tax authorities.

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 its upon subsequent increases thereon.

The capital duty rates for subsequent changes of the registered authorised and issued share capital are as follows:

(a) 0.6 per cent. of the nominal value of additional registered authorised share capital; and

(b) 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:

(a) it relates to any property situated in Cyprus; or

(b) 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.

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 is to be submitted to the courts of a foreign jurisdiction, the contract is executed outside of Cyprus and the loan asset is not secured or to be secured by way of a registered charge on Cypriot assets, such as shares in companies, 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 New GDRs. The summary is not a complete description of all tax considerations that may be relevant. It applies only to US Holders (as defined below) that acquire New GDRs in the Offering, hold New 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 the 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 New GDRs as part of a straddle, hedging, conversion or other integrated transaction. It also does not address US state and local considerations.

THE STATEMENTS ABOUT US FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE NEW 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 NEW 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 New 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 organised 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 or a trust that has elected to be treated as a US Person.

The US federal income tax treatment of a partner in a partnership that holds New 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 New GDRs.

Generally, holders of New GDRs will be treated for US federal income tax purposes as holding Ordinary Shares represented by the New GDRs. No gain or loss will be recognised upon an exchange of Ordinary Shares for New GDRs or an exchange of New 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 New 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 generally allowable to US corporations or for the preferential 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 recognise gain or loss when it disposes of the New GDRs in an amount equal to any difference between the US Dollar value of the amount realised and its adjusted tax basis in the New GDRs. A US Holder's adjusted tax basis in the New 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 New 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 New GDRs, it will realise an amount equal to the US Dollar value of the currency received at the spot rate on the date of disposition or, if the New 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 realised 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 realised 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 New GDRs, the US Holder would be subject in that and subsequent years 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 New 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 New GDRs that are made within the United States or through certain US-related financial intermediaries may be reported to the US Internal Revenue Service (***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 A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NEW 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 Offering Memorandum, 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 New GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for UK tax purposes as those persons' 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 New GDRs is connected ("UK holders"). In addition, this summary: (a) only addresses the tax consequences for UK holders who hold the New 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 New 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 any interest in the New GDRs or in the underlying Ordinary Shares; (e) assumes that the New GDRs will not be issued by a depositary incorporated in the UK; (f) assumes that neither the New 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 New 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 New 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 NEW GDRS IN THEIR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING THEIR OWN PROFESSIONAL TAX ADVISORS.

Taxation of Dividends

Income Tax and Corporation Tax

Individual holders of New GDRs

An individual holder who is resident for tax purposes in the UK and who receives a dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend which is equivalent to ten per cent. of the aggregate of the dividend paid and the tax credit (the ***gross dividend***), and will be subject to income tax on the gross dividend (rather than on the amount actually received net of any Cypriot withholding tax). An individual UK holder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of ten per cent., so that the tax credit will satisfy the income tax liability of such a holder in full. An individual holder who is subject to income tax at the higher rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that holder's income, falls above the threshold for higher rate income tax. After taking into account the ten per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend. Where the tax credit exceeds the holder's tax liability the holder cannot claim repayment of the tax credit from HM Revenue & Customs.

With effect from 6 April 2010, a new tax rate of 50 per cent. is expected to apply for taxable non-savings and savings income above £150,000. On and after the date on which the new rate takes effect, if and to the extent that the gross dividend received by an individual UK holder falls above the threshold for income tax at the new 50 per cent. rate, that individual will be subject to tax on the gross dividend at the rate of 42.5 per cent. The holder should be able to set the tax credit off against part of his liability with the effect that the holder would have to account for additional tax equal to 32.5 per cent. of the gross dividend, to the extent that the gross dividend fell above the threshold for the new 50 per cent. rate of income tax (which is also equal to 36⅑ per cent. of the cash dividend received).

Cypriot withholding tax (if any, see the statements regarding Cyprus tax in the section entitled "Dividends to be received by the New GDR holders" under the heading "Cyprus Tax Considerations") withheld from the payment of a dividend may in certain circumstances be available as a credit against the income tax payable by an individual holder in respect of the dividend but such relief is limited to the amount of foreign tax paid or the amount of UK tax payable, whichever is lower.

Corporate holders of New GDRs

Subject to anti-avoidance rules and the satisfaction of certain conditions, UK holders who are within the charge to UK corporation tax will in general not be subject to UK corporation tax on dividends paid by the

Company and such holders will not be able to claim credit in the UK for any Cypriot withholding tax attaching to the dividends.

Withholding Tax

Dividend payments in respect of the New GDRs should not be subject to UK withholding tax.

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 New GDRs may constitute "foreign dividends" for this purpose.

Taxation of Chargeable Gains

The disposal or deemed disposal of New 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 the case of a UK holder within the charge to UK corporation tax, indexation allowance may be available to reduce or eliminate a chargeable gain, but not generate or increase an allowable loss. In the case of an individual UK holder, indexation allowance is not available and chargeable gains are generally liable to capital gains tax (currently at the rate of 18 per cent.). An individual UK holder is entitled to an annual exemption from UK tax on chargeable gains currently up to £10,100 (in the 2009/2010 tax year). In addition, UK holders who are individuals and who dispose of their New 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 New 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 New GDRs.

No UK stamp duty reserve tax will be payable on any agreement to transfer the New 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 New 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.

PLAN OF DISTRIBUTION

The Offering comprises (i) an offering of New GDRs outside the United States in reliance on Regulation S and (ii) an offering of New 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 9 December 2009 entered into among the Company, the Selling Shareholder and the Managers, the Joint Bookrunners have severally agreed to procure purchasers for, or to themselves purchase, at the Offer Price, the number of New GDRs in the aggregate amount as indicated below. The Company and the Selling Shareholder have agreed to make available, at the Offer Price, to the Joint Bookrunners, the following number of New GDRs for such purpose:

Joint Bookrunners	Number of New GDRs
Deutsche Bank AG, London Branch	6,724,492
Morgan Stanley & Co. International plc	10,086,737
VTB Capital plc	1,867,914
	18,679,143

The total expenses payable by the Company and the Selling Shareholder for the Offering, other than the Joint Bookrunners' fees and commissions, are estimated to be up to USD 3.8 million (net of expense reimbursements).

The Joint Bookrunners will be soliciting non-binding indications of interest in acquiring New GDRs in the Offering from prospective investors. Prospective investors will be required to specify the number of New GDRs they would be prepared to acquire at the Offer Price. This process is known as book-building. New 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 Global Coordinators after non-binding indications of interest from prospective investors have been received in the book-building process.

All New GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the New GDRs has been determined by agreement between the Company, the Selling Shareholder and the Joint Bookrunners. A number of factors may be considered in determining the Offer Price and the basis of allocation under the Offering, including the level and nature of demand for the New 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.

The FSA in its capacity as competent authority under the FSMA has granted admission to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 116,959,064 GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, of which 37,309,941 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR".

The Underwriting Agreement and related arrangements contain the following provisions, among others:

- The Selling Shareholder has granted an Over-Allotment Option to the Joint Bookrunners to acquire additional New GDRs of up to 10 per cent. of the total number of New GDRs sold in the Offering 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 by the Joint Global Coordinators on one or more occasions upon written notice to the Selling Shareholder 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, the Selling Shareholder 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 New GDRs proportionate to that Joint Bookrunner's initial amount indicated in the table above.
- The Joint Bookrunners will receive fees and commissions of approximately USD 3.9 million, assuming the Over-Allotment Option is not exercised, or approximately USD 4.3 million assuming the Over-Allotment Option is exercised in full. In addition, the Joint Bookrunners may

receive, at the sole discretion of the Company and the Selling Shareholder, an additional fee of up to 0.5 per cent. of the gross proceeds of the Offering, including in respect of any New GDRs purchased by the Joint Bookrunners pursuant to the Over-Allotment Option. In addition, the Company and the Selling Shareholder 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 the Selling Shareholder 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, among others, the accuracy of the representations and warranties in the Underwriting Agreement. The Joint Global Coordinators 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 Shareholder have given certain representations and warranties to the Managers in relation to the Ordinary Shares, the New GDRs, the Group's Business, and the contents of this Offering Memorandum.

The Company and the Selling Shareholder have given customary indemnities to the Managers 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, the Selling Shareholder and EIL have each 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 Global Coordinators:

(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 the GDRs, Ordinary Shares or other such securities; 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 the 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 the Selling Shareholder 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 New 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 New GDRs in the open market.

In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the New GDRs offered in the Offering and in that capacity may retain, purchase or sell the New GDRs for its own account and may offer or sell such securities otherwise than in connection with the Offering. The Managers 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.

Each of the Managers and their respective affiliates has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Group and with the Company's principal shareholders, TIHL and EIL. The Managers receive and in the future will receive customary fees and commissions for these transactions and services.

Deutsche Bank AG, London Branch and Morgan Stanley & Co. International plc have been engaged by the Company to provide advisory services in connection with the Contribution, including provision by each of them of an opinion in accordance with their respective customary practices, to the Board of Directors regarding the fairness to the Company, at the date of the opinions, from a financial point of view of the value of BTS in the Contribution.

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 New GDRs, or possession or distribution of this Offering Memorandum or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the New GDRs may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisement in connection with the New 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 Offering Memorandum comes should inform themselves about and observe any restrictions on the distribution of this Offering Memorandum and the offer, subscription and sale of the New 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 Offering Memorandum does not constitute an offer to subscribe for or buy any of the New 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, Australia and Japan

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 New GDRs; and the New GDRs have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. Accordingly, subject to certain exceptions, the New GDRs may not, directly or indirectly, be offered or sold within Canada, Australia or Japan or offered or sold to a resident of Canada, Australia or Japan.

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 New GDRs which are the subject of the offering contemplated by this Offering Memorandum may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of New 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 EUR 43,000,000 and (3) an annual net turnover of more than EUR 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 New GDRs shall result in a requirement for the publication by the Company or any Manager 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 New 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 New GDRs to be offered so as to enable an investor to decide to purchase any New 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 Manager has agreed that the New 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 who is not a qualified investor in accordance with Russian law and unless and to the extent otherwise permitted under Russian Law; it being understood and agreed that the Joint Bookrunners may distribute this Offering Memorandum to persons in the Russian Federation in a manner that does not constitute an advertisement (as defined in Russian law) of the New GDRs and may sell the New GDRs to Russian qualified investors in a manner that does not constitute "placement" or "public circulation" of the New GDRs in the Russian Federation (as defined in Russian law).

United Kingdom

Each Manager 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 New 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 New GDRs in, from or otherwise involving the United Kingdom.

United States

The New 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 New GDRs to institutional investors outside the United States in accordance with Regulation S under the Securities Act and (ii) to offer the New GDRs in the United States only to qualified institutional buyers 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 New 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 made other than in accordance with Rule 144A.

TRANSFER RESTRICTIONS

Rule 144A GDRs

Each purchaser of New GDRs located in the United States, by its acceptance of delivery of this Offering Memorandum, 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 New 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 New GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such New 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 New 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 New 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 New GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the New 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 OF 1933, AS AMENDED (THE "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 QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (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 Shareholder, the Managers 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 New 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 New 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 Shareholder, the Managers 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 New GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the New 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 New 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—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 are represented by a Master Regulation S GDR registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC are 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 Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary 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 Depositary 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 Depositary in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Initial Settlement

The New GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the New GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the New GDRs through DTC will follow the delivery practices applicable to depositary 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 depositary 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 depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary 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 Depositary, 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 Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary 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 Depositary is located at One Wall Street, New York, NY 10286. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, NY 10286. A copy of the Depositary'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 principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

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 Herbert Smith LLP and Herbert Smith CIS LLP, and as to Cypriot law by Chrysses Demetriades & Co Law Office.

INDEPENDENT AUDITORS

The Group's Consolidated Financial Statements as at and for the year ended 31 December 2008 have been audited by PricewaterhouseCoopers Limited, independent auditors, as stated in their report (the ***Independent Auditor's Report***) appearing herein. The Consolidated Financial Statements as at and for the years ended 31 December 2007, 2006 and 2005 have been audited by PricewaterhouseCoopers Limited, as stated in their report incorporated by reference to this Offering Memorandum. See "Incorporation by Reference". 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.

With respect to the unaudited condensed consolidated financial information of the Group for the six-month period ended 30 June 2009 included in this Offering Memorandum, PricewaterhouseCoopers Limited reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 31 August 2009 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The BTS Financial Statements as at and for the year ended 31 December 2008 have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, as stated in their report (the ***BTS Independent Auditor's Report***) appearing herein. ZAO PricewaterhouseCoopers Audit have registered offices at Kosmodamianskaya nab. 52/5, 115054 Moscow, Russian Federation. ZAO PricewaterhouseCoopers Audit is a member of the Audit Chamber of Russia (*Auditorskaya Palata Rossii*).

With respect to the unaudited financial information of BTS for the six months ended 30 June 2009, included in this Offering Memorandum, ZAO PricewaterhouseCoopers Audit reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 27 November 2009 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

INCORPORATION BY REFERENCE

The following information included in the Prospectus of Globaltrans dated 30 April 2008 (the ***IPO Prospectus***) is incorporated by reference in this Offering Memorandum:

- the Group's consolidated balance sheets as at 31 December 2007 and 31 December 2006, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and the summary of significant accounting policies and other explanatory notes (so far as such summary and notes relate to the years ended 31 December 2007 and 2006) included in the Group's Financial Statements for the Three Years Ended 31 December 2007;

- the Accountants' Report of PricewaterhouseCoopers Limited relating to the Consolidated Financial Statements as at and for the years ended 31 December 2007, 2006 and 2005 dated 30 April 2008; and

- from Management's Discussion and Analysis of Financial Condition and Results of Operations:

  - the discussion of Results of Operations for the Years Ended 31 December 2007 and 2006; and

  - the discussion of Cash Flows (so far as such discussion relates to the years ended 31 December 2007 and 2006).

The IPO Prospectus was sent to investors who purchased GDRs in the IPO, is available at http://www.globaltrans.com/uploads/media/GLTR_IPO_Prospectus.pdf and may be viewed at the UK Listing Authority's Document Viewing Facility, 25 The North Colonnade, Canary Wharf, London E14 5HS.

In particular, the following information (so far as it relates to the years ended 31 December 2007 and 2006, unless otherwise indicated below) is incorporated by reference as set out in the corresponding pages of the IPO Prospectus:

TECHNICAL GLOSSARY

The following technical terms are used in this Offering Memorandum:

- ***block train*** means a train comprising only rolling stock operated by a single company 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 run*** means movement of rolling stock without cargo for the whole or a substantial part of the journey;
- ***Empty Run ratio*** is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. 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);
- ***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 Rail Turnover*** is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km;
- ***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;
- ***rail tank car*** means a type of rolling stock used for transporting liquids, such as oil products and oil;
- ***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 re-melted and recast into new steel;
- ***steam jacket rail tank car*** means rail tank cars specially equipped with a jacket which is filled with hot steam to allow efficient offloading during the 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 Contribution and Subscription Agreement were duly authorised by the Board of Directors on 8 December 2009 and 29 November 2009, respectively, in accordance with the Company's constitutional documents. The board of directors of the Selling Shareholder duly approved and authorised the transfers and sale of the Ordinary Shares, and the Selling Shareholder entering into the Underwriting Agreement and the Securities Lending Agreement on 8 December 2009.

2. There has been no significant change in the Group's financial or trading position since 30 September 2009, 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".

3. 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 Offering Memorandum which may have, or have had in the recent past significant effects on the Group's financial position or profitability.

4. 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.

5. 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 Offering Memorandum:

    - 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 2008, 2007 and 2006;
    - the Company's unaudited consolidated condensed interim (EU IFRS) financial information as at and for the six month period ended 30 June 2009;
    - BTS's audited IFRS financial statements as at and for the year ended 31 December 2008;
    - BTS's unaudited condensed interim financial information for the six month period ended 30 June 2009; and
    - the Deposit Agreement.

6. The Group prepares consolidated annual and interim financial statements in accordance with EU IFRS.

7. There are no temporary documents of title issued in respect of the New GDRs. There is no premium and there are no expenses specifically charged to any purchaser of New GDRs in the Offering. The Offering is an institutional offering only in which payment for the New 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 New 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.

8. The following table sets forth the registered offices of the Group's material subsidiaries:

Name	Country of incorporation	Beneficial ownership/ voting rights	Registered Office
OAO New Forwarding Company	Russia	100%	16/6 Spartakovskaya Square Moscow 105082 Russia
OOO Sevtekhnotrans	Russia	100%	10 Testovaskaya Street Moscow 123317 Russia
Ukrainian New Forwarding Company LLC	Ukraine	100%	12 Chkalova Street Dnepropetrovsk 49044 Ukraine
AS Intopex Trans	Estonia	65%	139 E/1 Parnu Mnt Tallinn 11317 Estonia
AS Spacecom	Estonia	61%	139 E/1 Parnu Mnt Tallinn 11317 Estonia
AS Skinest Veeremi	Estonia	61%	1 Kadaka tee Tallinn 10621 Estonia

9. Following completion of the Contribution, Ingulana Holdings Limited and BTS will become material subsidiaries of the Group. Their registered offices are as follows:

Name	Country of incorporation	Beneficial ownership/ voting rights	Registered Office
Ingulana Holdings Limited	Cyprus	5/9	1 Avlonos, Maria House 5th Floor CY-1075 Nicosia Cyprus
BTS	Russia	50%	115 Metallistov Street Saint Petersburg 195197 Russia

INDEX TO FINANCIAL INFORMATION

Globaltrans Investment Plc

Interim financial information (unaudited)
30 June 2009

CONTENTS

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO GLOBALTRANS INVESTMENT PLC

Introduction

We have reviewed the accompanying consolidated condensed balance sheet of Globaltrans Investment Plc as of 30 June 2009 and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended. The Board of Directors is responsible for the preparation and presentation of this consolidated condensed interim financial information in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (International Accounting Standard 34 "Interim Financial Reporting"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed interim financial information is not prepared in all material respects in accordance with International Accounting Standard 34 "Interim Financial Reporting".

s/PricewaterhouseCoopers Limited

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 31 August 2009

GLOBALTRANS INVESTMENT PLC

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
		US$'000	**US$'000**
Revenue	6	**215,573**	341,622
Cost of sales	7	**(143,074)**	(207,469)
Gross profit		**72,499**	134,153
Selling and marketing costs	7	**(695)**	(1,178)
Administrative expenses	7	**(18,202)**	(26,480)
Other gains—net		**474**	2,256
Operating profit		**54,076**	108,751
Finance income	8	**695**	1,607
Finance costs	8	**(45,197)**	(8,763)
Finance cost—net	8	**(44,502)**	(7,156)
Share of profit of associate		**331**	546
Profit before income tax		**9,905**	102,141
Income tax income/(expense)		**1,048**	(24,160)
Profit for the period		**10,953**	77,981
Attributable to:			
—equity holders of the Company		**6,370**	72,292
—minority interest		**4,583**	5,689
		10,953	77,981
		US$ per share	**US$ per share**
Earnings per share for profit attributable to the equity holders of the Company			
—basic and diluted	15	**0.05**	0.66

The notes on pages F-10 to F-28 are an integral part of these condensed consolidated interim financial statements.

GLOBALTRANS INVESTMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	**US$'000**
Profit for the period	**10,953**	77,981
Currency translation differences	**(20,892)**	18,598
Total comprehensive income for the period	**(9,939)**	96,579
Total comprehensive income attributable to:		
—equity holders of the Company	**(14,822)**	89,807
—minority interest	**4,883**	6,772
	(9,939)	96,579

The notes on pages F-10 to F-28 are an integral part of these condensed consolidated interim financial statements.

GLOBALTRANS INVESTMENT PLC

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2009	As at 31 December 2008
		US$'000	US$'000
Assets			
Non-current assets			
Property, plant and equipment	9	**691,136**	741,915
Investment in associate		**1,308**	926
Trade and other receivables	10	**14,190**	28,023
Total non-current assets		**706,634**	770,864
Current assets			
Inventories		**1,098**	660
Trade and other receivables	10	**98,990**	101,774
Current income tax assets		**6,468**	11,160
Cash and cash equivalents		**64,216**	111,602
Total current assets		**170,772**	225,196
Non-current assets held for sale	17	**10,871**	—
Total assets		**888,277**	996,060
Equity and liabilities			
Capital and reserves			
Share capital	12	**11,696**	11,696
Share premium	12	**279,145**	279,145
Common control transaction reserve		**(158,527)**	(158,527)
Translation reserve		**(78,425)**	(57,233)
Capital contribution		**90,000**	90,000
Retained earnings		**236,406**	230,036
		380,295	395,117
Minority interest		**31,208**	26,325
Total equity		**411,503**	421,442
Non-current liabilities			
Borrowings	13	**263,556**	321,318
Trade and other payables	11	**11,974**	24,129
Deferred gains		**629**	508
Deferred tax liabilities		**13,576**	15,563
Total non-current liabilities		**289,735**	361,518
Current liabilities			
Borrowings	13	**131,373**	124,310
Trade and other payables	11	**55,309**	85,836
Deferred gains		**325**	920
Current income tax liabilities		**32**	2,034
Total current liabilities		**187,039**	213,100
Total liabilities		**476,774**	574,618
Total equity and liabilities		**888,277**	996,060

The notes on pages F-10 to F-28 are an integral part of this condensed consolidated interim financial statements.

GLOBALTRANS INVESTMENT PLC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity shareholders of the Company								
	Note	Share capital	Share premium	Common control transaction reserve	Translation reserve	Capital contribution	Retained earnings	Total	Minority interest	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2008		10,000	61,560	(88,008)	30,808	90,000	148,002	252,362	26,468	278,830
Total comprehensive income for the period ended 30 June 2008		—	—	—	17,515	—	72,292	89,807	6,772	96,579
Issue of shares	12	1,696	223,012	—	—	—	—	224,708	—	224,708
Dividends related to 2008		—	—	—	—	—	(8,900)	(8,900)	—	(8,900)
Minority interest on acquisition		—	—	5,504	—	—	—	5,504	(5,504)	—
Expenses directly related to issue of new shares	12	—	(6,845)	—	—	—	—	(6,845)	—	(6,845)
Balance at 30 June 2008		11,696	277,727	(82,504)	48,323	90,000	211,394	556,636	27,736	584,372
Balance at 1 January 2009		11,696	279,145	(158,527)	(57,233)	90,000	230,036	395,117	26,325	421,442
Total comprehensive income for the period ended 30 June 2009		—	—	—	(21,192)	—	6,370	(14,822)	4,883	(9,939)
Balance at 30 June 2009		11,696	279,145	(158,527)	(78,425)	90,000	236,406	380,295	31,208	411,503

The notes on pages F-10 to F-28 are an integral part of these condensed consolidated interim financial statements.

GLOBALTRANS INVESTMENT PLC

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
		US$'000	US$'000
Net cash from operating activities		**70,570**	59,397
Cash flows from investing activities			
Cash outflow for acquisition of subsidiary undertakings—net of cash		**(37,024)**	—
Loan repayments received from related parties		**—**	3,253
Purchases of property, plant and equipment		**(6,402)**	(94,476)
Proceeds from disposal of property, plant and equipment		**96**	1,936
Interest received		**707**	666
Receipts from finance lease—related parties		**—**	20,082
Receipts from finance lease—third parties		**1,212**	1,301
Net cash used in investing activities		**(41,411)**	(67,238)
Cash flows from financing activities			
Proceeds from borrowings		**102,125**	326,850
Repayments of borrowings		**(118,821)**	(290,497)
Finance lease principal payments		**(42,788)**	(41,082)
Interest paid		**(25,250)**	(23,269)
Proceeds from sale and finance leaseback transactions		**10,388**	—
Proceeds from issue of shares		**—**	216,245
Dividends paid to Company's shareholders		**—**	(20,319)
Net cash (used in)/from financing activities		**(74,346)**	167,928
Net (decrease)/increase in cash and cash equivalents		**(45,187)**	160,087
Exchange (losses)/gains on cash and cash equivalents		**(4,238)**	2,100
Cash and cash equivalents at beginning of period		**111,390**	31,024
Cash, cash equivalents and overdrafts at end of period		**61,965**	193,211

The principal non cash transactions consist of:

(a) Finance leases as a lessor (Note 10)

(b) Finance leases as a lessee (Note 13)

The notes on pages F-10 to F-28 are an integral part of these condensed consolidated interim financial statements.

1. GENERAL INFORMATION

The Company is incorporated and domiciled in Cyprus as a 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 its registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 12 Ozerkovsky, Moscow, Russia.

Global Depositary Receipts representing ordinary shares of the Company are listed on the London Stock Exchange.

This condensed consolidated interim financial information was approved for issue by the Board of Directors of the Company on 31 August 2009.

This condensed consolidated interim financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union applicable to Interim Financial Reporting (International Accounting Standard 34 "Interim Financial Reporting"). The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Cyprus Companies Law, Cap. 113.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2008, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Payroll related taxes and contributions which are assessed on an annual basis are recognised in interim periods using an estimated annual effective payroll tax or contribution rate.

The following new International Financial Reporting Standards (IFRS) are mandatory for the first time for the financial year beginning 1 January 2009.

- IAS 1 (Revised), "Presentation of financial statements". The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also include all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities are 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 has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- IFRS 8, "Operating Segments"* 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 chief operating decision-maker has been identified as the Board of Directors of the Company that makes strategic decisions.

3. ACCOUNTING POLICIES (Continued)

- IAS 23 (Revised) "Borrowing costs". 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 has been removed. This Standard does not 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.

The following Amendments and IFRIC Interpretations are mandatory for the first time for the financial year beginning 1 January 2009 but are not currently relevant to the Group:

Amendments

- Amendments to IFRS 1 "First time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements" on the "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendment to IFRS 2 "Share based payments" on "Share Based Payment: Vesting Conditions and Cancellations"
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of financial statements on "Puttable Financial Instruments and Obligations arising on Liquidation" "
- Annual Improvements to IFRS (2008)

New IFRICs

- IFRIC 13 "Customer loyalty programmes relating to IAS 18 "Revenue" "
- IFRIC 14 "IAS 19—The limit on a defined benefit asset, minimum funding requirements and their interaction"
- IFRIC 15 "Agreements for the Construction of Real Estate"

The following new International Financial Reporting Standards (IFRS), Amendments and IFRIC Interpretations have been issued but are not yet effective (Items marked with * have not been endorsed by the European Union (EU); the Company will only be able to apply new IFRS and IFRICs when endorsed by the EU):

(a) *Standards and Amendments that are relevant and not yet effective and have not been early adopted by the Group*

- 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 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 purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. 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 any 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 revised IFRS 3 brings into its scope business combinations involving only mutual

3. ACCOUNTING POLICIES (Continued)

entities and business combinations achieved by contract alone. The Group will apply the Standard from 1 January 2010.

- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements" (effective from 1 July 2009)—The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.
- Improving Disclosures about Financial Instruments—Amendment to IFRS 7, "Financial Instruments and Disclosures"* (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantees contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) required disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Group will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

(b) Standards, Amendments and IFRIC Interpretations that are not relevant and not yet effective and have not been early adopted by the Group

New Standards

- IFRS 1 (Revised) "First Time Adoption of International Financial Reporting Standards"* (effective from 1 January 2009)

Amendments

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" on "Eligible Hedged Items"* (effective from 1 July 2009)
- Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives* (effective from 1 July 2008)
- Annual Improvements 2009* (effective from 1 July 2009/1 January 2010)
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions* (effective from 1 January 2010)
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters* (effective from 1 January 2010)

New IFRICs

- IFRIC 12 "Service concession arrangements" (effective from 1 January 2008; EU IFRS: 30 March 2009)
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008; EU IFRS: 30 June 2009)
- IFRIC 17 "Distributions of Non cash Assets to Owners"* (effective from 1 July 2009)
- IFRIC 18 "Transfers of Assets from Customers"* (effective from 1 July 2009)

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.

Critical judgements in applying the Group's accounting policies

Impairment of assets

The Group reviews long-lived assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. If the total of the discounted future cash flows is less than the carrying amount of the asset or group of assets, the asset is not recoverable and an impairment loss is recognised for the difference between the estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) and the carrying value of the asset or group of assets. Long-lived assets are assessed for possible impairment upon the occurrence of a triggering event. Events that can trigger assessments for possible impairments include, but are not limited to (a) significant decreases in the market value of an asset, (b) significant changes in the extent or manner of use of an asset, and (c) a physical change in the asset. Estimating discounted future cash flows requires us to make judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about demand for our services, future market conditions' and future technological developments. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, the Group cannot reasonably quantify the impact of changes in these assumptions. Due to the adverse changes in the economic situation in Russia and high volatility in the global financial markets, which might lead to impairment of long-lived assets, the Group has re-assessed its assumptions used for the impairment test of the estimated recoverable amount of the cash generating unit compared to its carrying value performed for the year ended 31 December 2008.

The smallest cash generating unit to which this can be applied is by type of rolling stock for the Russian subsidiaries and by type of rolling stock for each legal entity for the Estonian subsidiaries.

A substantial excess of value in use over the carrying amount of rolling stock was identified for all categories of property, plant and equipment, except for platforms and hoppers (cement-carriers), as there is an uncertainty as to whether these types of rolling stock can recover their cost through continuing use. Such uncertainty is based on the absence of prior experience of operating of platforms and decreased demand in the first quarter of 2009 for cement transportation. However, starting from the second quarter of 2009, the market evidenced certain recovery from the previous period of downturn and profitability has stabilised at the level approximating the budgeted amounts.

Should the assumptions on profitability associated with the operation of platforms and hoppers be different, impairment might have been recognised, however, given the nature of these assumptions and the absence of reliable information relating to the operation of these types of rolling stock, the Group cannot reasonably quantify the impact of changes in these assumptions.

5. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors of the Group. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, management reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective management assesses the

5. SEGMENT INFORMATION (Continued)

performance of each type (tanker wagons, open wagons, locomotives, hopper wagons, platforms) at the level of adjusted revenue.

Adjusted revenue measure includes the revenues derived from the relating type of rolling stock used less infrastructure tariff paid for the loaded trips of relating rolling stock. Further Board receives information in respect of repair expenses by type of rolling stock and relating depreciation charges. All other information provided to the Board is measured in a manner consistent with that in the financial statements.

	Open wagons	Tank cars	Other	Total
Six months ended 30 June 2009				
Total revenue—operator's services	107,100	68,664	8,113	**183,877**
Total revenue—operating lease	602	25,839	4,574	**31,015**
Inter-segment revenue	—	—	—	**—**
Revenue (from external customers)	107,702	94,503	12,687	214,892
less Infrastructure and locomotive tariffs—loaded trips	(9,197)	(24,447)	(1,026)	**(34,670)**
Adjusted revenue	98,508	70,056	11,661	180,222

	Open wagons	Tank wagons	Other	Total
Six months ended 30 June 2008				
Total revenue—operator's services	171,921	109,004	17,614	**298,539**
Total revenue—operating lease	1,418	24,279	4,849	**30,546**
Inter-segment revenue	—	—	—	**—**
Revenue (from external customers)	173,339	133,283	22,463	329,085
less Infrastructure and locomotive tariffs—loaded trips	(32,620)	(40,172)	(4,923)	**(77,715)**
Adjusted revenue	140,719	93,111	17,540	251,370

A reconciliation of total adjusted revenue to total profit before income tax is provided as follows:

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Adjusted revenue for reportable segments	**180,222**	251,370
Other revenues	**681**	12,537
Cost of sales (excl. Infrastructure and locomotive tariffs—loaded trips and depreciation of property, plant and equipment)	**(87,404)**	(106,986)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(18,460)**	(26,765)
Depreciation	**(20,968)**	(23,173)
Impairments	**(469)**	(488)
Other gains—net	**474**	2,256
Operating profit	**54,076**	108,751
Finance income	**695**	1,607
Finance costs	**(45,197)**	(8,763)
Share of profit of associates	**331**	546
Profit before income tax	**9,905**	102,141

6. REVENUE

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Railway transportation—operators services (tariff borne by the Group)(1)	**61,019**	129,420
Railway transportation—operators services (tariff borne by the client)	**122,858**	169,119
Railway transportation—freight forwarding	**168**	2,088
Operating leasing of rolling stock	**31,015**	30,546
Resale of wagons and locomotives sold in trading transactions	**181**	10,099
Other	**332**	350
	215,573	341,622

(1) Includes infrastructure and locomotive tariffs for loaded trips for the six months ended 30 June 2009 amounting to US$34,670 thousand (for the six month ended 30 June 2008: US$77,715 thousand).

7. EXPENSES BY NATURE

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 9)	**20,968**	23,173
Loss/(Gain) on sale of property, plant and equipment	**192**	(2,758)
Employee benefit expense	**11,120**	15,251
Impairment charge for receivables	**123**	488
Impairment charge for property, plant and equipment	**346**	—
Operating lease rentals—rolling stock	**9,095**	16,587
Operating lease rentals—office	**1,948**	2,154
Repairs and maintenance	**21,340**	28,068
Infrastructure and locomotive tariffs:		
Loaded trips	**34,670**	77,715
Empty run trips and services provided by other transportation organisations	**52,111**	46,846
Auditors' remuneration	**502**	919
Legal, consulting and other professional fees	**1,385**	5,479
Advertising and promotion	**97**	185
Communication costs	**306**	364
Information services	**379**	459
Taxes (other than income tax and value added taxes)	**3,459**	3,897
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**178**	9,312
Other expenses	**3,752**	6,988
Total cost of sales, selling and marketing costs and administrative expenses	**161,971**	235,127

7. EXPENSES BY NATURE (Continued)

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Cost of sales		
Depreciation of property, plant and equipment	**20,654**	22,768
Impairment charge for property, plant and equipment	**346**	—
Loss/(Gain) on sale of property, plant and equipment	**196**	(2,812)
Employee benefit expense	**3,171**	5,108
Operating lease rentals—rolling stock	**9,095**	16,587
Repairs and maintenance	**21,340**	28,068
Infrastructure and locomotive tariffs:		
Loaded trips	**34,670**	77,715
Empty run trips and services provided by other transportation organisations	**52,111**	46,846
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**178**	9,312
Other expenses	**1,313**	3,877
Total cost of sales	**143,074**	207,469

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**314**	405
(Gain)/Loss on sale of property, plant and equipment	**(4)**	54
Employee benefit expense	**7,949**	10,143
Impairment charge of receivables	**123**	488
Operating lease rental—office	**1,948**	2,154
Auditors' remuneration	**502**	919
Legal, consulting and other professional fees	**1,385**	5,479
Advertising and promotion	**97**	185
Communication costs	**306**	364
Information services	**379**	459
Taxes (other than income tax and value added taxes)	**3,459**	3,897
Other expenses	**2,439**	3,111
Total selling, marketing and administrative expenses	**18,897**	27,658

8. FINANCE INCOME AND COSTS

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Interest expense:		
Bank borrowings	**(8,603)**	(8,570)
Finance leases—third parties	**(11,972)**	(14,898)
Loans from:		
Third parties	**(156)**	(326)
Related parties (Note 19 (d))	**(540)**	(3,843)
Total interest expense	**(21,271)**	(27,637)
Net foreign exchange transaction (losses)/gains on financing activities	**(23,058)**	18,874
Other finance costs—related parties (Note 19 (d))	**(868)**	—
Finance costs	**(45,197)**	(8,763)
Interest income:		
Bank balances	**59**	749
Short term deposits	**189**	16
Finance leases—third parties	**442**	621
Finance leases—related parties (Note 19 (d))	**—**	89
Loans to:		
Related parties (Note 19 (d))	**—**	9
Third parties	**5**	123
Total interest income	**695**	1,607
Finance income	**695**	1,607
Net finance costs	**(44,502)**	(7,156)

9. PROPERTY, PLANT AND EQUIPMENT

	US$'000
Six months ended 30 June 2009	
Opening net book amount as at 1 January 2009	**741,915**
Additions—third parties	**18,078**
Disposals—third parties	**(10,532)**
Impairment charge	**(346)**
Depreciation (Note 7)	**(20,968)**
Exchange difference	**(37,011)**
Closing net book amount as at 30 June 2009	**691,136**

10. TRADE AND OTHER RECEIVABLES

	30 June 2009	31 December 2008
	US$'000	US$'000
Trade receivables—third parties	**34,801**	31,056
Trade receivables—related parties (Note 19 (f))	**19,025**	8,710
Less: Provision for impairment of trade receivables	**(2,577)**	(2,634)
Trade receivables—net	**51,249**	37,132
Loans to third parties	**137**	120
Other receivables—third parties	**7,044**	15,710
Other receivables—related parties (Note 19 (f))	**178**	2,135
Prepayments—related parties (Note 19 (f))	**2,155**	1,932
Prepayments—third parties[1]	**15,733**	41,688
Finance lease receivables—third parties	**5,778**	6,993
VAT and other taxes recoverable	**30,906**	24,087
	113,180	129,797
Less non-current portion:		
Prepayments—third parties[2]	**6,769**	21,092
Other receivables—third parties	**3,069**	74
Finance lease receivables—third parties	**2,702**	4,443
VAT and other taxes recoverable	**1,650**	2,414
Total non-current portion	**14,190**	28,023
Total current portion	**98,990**	101,774

(1) Prepayments in current trade and other receivables mainly consist of prepayments made to OAO Russian Railways, which decreased substantially compared to 31 December 2008.

(2) Prepayment in non-current trade and other receivables represent prepayments for purchases of property, plant and equipment.

11. TRADE AND OTHER PAYABLES

	30 June 2009	31 December 2008
	US$'000	US$'000
Current		
Trade payables—third parties	**13,735**	13,855
Trade payables—related parties (Note 19 (f))	**1,530**	1,650
Other payables—related parties (Note 19 (f))	**24,926**	51,932
Other trade payables—third parties	**4,548**	2,558
Accrued expenses	**1,945**	2,647
Advances from customers	**5,679**	7,731
Advances from related parties (Note 19 (f))	**2,946**	5,463
	55,309	85,836
Non-current		
Other payables to related parties (Note 19 (f))	**11,974**	24,129
	11,974	24,129

12. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital	Share premium	Total
		US$'000	US$'000	US$'000
Opening balance as at 1 January 2008	10,000,000	10,000	61,560	71,560
Change of nominal value	90,000,000	—	—	—
Issue of shares	16,959,064	1,696	223,012	224,708
Expenses directly related to issue of new shares	—	—	(6,845)	(6,845)
At 30 June 2008	**116,959,064**	**11,696**	**277,727**	**289,423**
Opening balance as at 1 January 2009	116,959,064	11,696	279,145	290,841
At 30 June 2009	116,959,064	11,696	279,145	290,841

13. BORROWINGS

	30 June 2009	31 December 2008
	US$'000	US$'000
Non-current	**263,556**	321,318
Current	**131,373**	124,310
	394,929	445,628
Current		
Bank overdrafts	**2,251**	212
Bank borrowings	**64,744**	51,804
Loan from third parties	**156**	319
Loans from related parties (Note 19 (h))	**531**	2,817
Finance lease liabilities	**63,691**	69,158
	131,373	124,310
Non current		
Bank borrowings	**82,419**	98,928
Loan from third parties	**2,618**	2,618
Loan from related parties (Note 19 (h))	**3,000**	15,562
Finance lease liabilities	**175,519**	204,210
	263,556	321,318
Total borrowings	**394,929**	445,628

Movements in borrowings are analysed as follows:

	US$'000
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	**445,416**
Proceeds from borrowings	**102,125**
Proceeds from finance leases	**10,388**
Repayments of borrowings	**(119,221)**
Repayments of finance leases	**(42,807)**
Interest charged	**20,933**
Interest paid	**(24,495)**
Net foreign exchange difference	**339**
Closing amount as at 30 June 2009*	**392,678**

13. BORROWINGS (Continued)

The significant movement in borrowings arises from a large number of short term borrowing facilities directly related to the operations of the Group and excludes movement of overdrafts.

The group has the following undrawn borrowing facilities:

	30 June 2009	31 December 2008
	US$'000	US$'000
Fixed rate:		
—expiring within one year	**20,293**	3,063
Floating rate:		
—expiring within one year	**13,423**	24,929
Total undrawn borrowing facilities	**33,716**	27,992

14. INCOME TAXES

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2009 is 11.68% (2008: 18.75%). The decrease in the effective tax rate is due to a higher contribution of profit before income tax by the Estonian subsidiaries of the Group where the profit earned by enterprises is not taxed.

15. 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 period.

	Six months ended 30 June 2009	Six months ended 30 June 2008
Profit for the period attributable to equity holders of the Company (US$'000)	**6,370**	72,292
Weighted average number of ordinary shares in issue (thousand)	**116,959**	109,598
Earnings per share for profit attributable to the equity holders of the company:		
—basic and diluted (expressed in US$ per share)	**0.05**	0.66

On 19 March 2008 the Company changed its authorised share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share (Note 11). For the purposes of the calculation of earnings per share in each of the periods above, the number of shares was increased using a conversion of 10:1.

16. DIVIDENDS

No dividends were declared during the six months ended 30 June 2009.

17. NON-CURRENT ASSETS HELD FOR SALE

As of 30 June 2009 240 hopper cars have been presented as held for sale following the decision to dispose them through finance lease. These assets were measured at the net book value amounting to US$10,871 thousand. According to the finance lease agreement concluded with a third party in June 2009 the subsidiary of the Company has sold these hopper cars in July 2009.

18. CONTINGENCIES

Operating environment

The Group and its subsidiaries operate mainly in the Russian Federation and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. There has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies.

The commodities market was also impacted by the latest events on the financial markets. A number of measures have been undertaken to support the Russian financial markets.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks 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.

Estonia represents a well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

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.

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Finally, 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.

18. CONTINGENCIES (Continued)

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and our assessment of the impairment of non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in their impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Tax legislation in Russia

Russian tax and customs 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 authorities.

The Russian tax authorities may be taking a 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. The Supreme Arbitration Court issued guidance to lower courts on reviewing 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 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, 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 the transfer pricing rules 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

18. CONTINGENCIES (Continued)

any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits 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 the 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 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 entity.

Based on the results of tax inspection for 2004 and preliminary results of tax inspections for 2006 and 2007 of OJSC New Forwarding Company (Company's subsidiary) tax authorities' could claim additional VAT in the amount of US$4,908 thousand and US$18,462 thousand respectively. This claim is based on the tax authorities interpretation of legislation and suggests that the company's activities related to export transactions do not qualify as zero rated for VAT purposes. No similar claim has been raised in the course of tax inspection for 2005 which was completed earlier. The subsidiary has received a positive decision from Court in respect of 2004 tax claim in the first instance in February 2009, arbitrary court decision in April 2009 and Federal arbitrary court in August 2009. Tax inspection has a right to appeal. However, based on results of previous hearings, management believes that it will be able to defend its position. No provision for this matter has been recorded in these financial statements.

Total sales to which the Company's subsidiary applies 0% VAT for 2008 and for the six months ended on 30 June 2009 which are still open for tax inspection amount to US$183,208 thousand. Currently there is no indication that similar claims will be raised by tax authorities in respect of this period.

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 as of 30 June 2009 except one instance of non-compliance by one of the subsidiaries. However, an appropriate waiver was received from the bank and consequently no event of default occurred as at the balance sheet date.

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 6 months ended 30 June 2009, the Group was involved as a claimant in a number of court proceedings.

18. CONTINGENCIES (Continued)

In the opinion of management, there are no legal proceedings or other claims outstanding, as of 30 June 2009, 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.

19. RELATED PARTY TRANSACTIONS

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 19.55% (including the holding of GDRs of the Company) of the Company's shares. The remaining 30.35% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Group is Leverret Holding Limited.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Sales of services:		
The parent	**5**	—
Other related parties	**42,807**	49,838
	42,812	49,838

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

(b) Purchases of goods and services

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Purchases of services:		
Other related parties	**13,024**	14,107
	13,024	14,107

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

19. RELATED PARTY TRANSACTIONS (Continued)

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

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Disposals:		
Other related parties	—	7,795
	—	7,795

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

(d) Interest income and expenses

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Interest income (Note 8):		
Loans to:		
Other related parties	—	9
Finance leases (Note 8):		
Other related parties	—	89
	—	98
Interest expense (Note 8):		
The parent	**(540)**	(3,843)
Other finance cost (Note 8):		
The parent	**(868)**	—
	(1,408)	(3,843)

The majority of the above transactions with "other related parties" for the year were carried out with entities under common significant influence.

Other finance cost relates to the interest accrued on the consideration payable by the Company to the Parent for the acquisition of AS Spacecom and AS Intopex Trans in 2008 in the amount of US$482 thousand and unwinding of discounting effect on that liability in the amount of US$386 thousand.

(e) Key management compensation

	Six months ended 30 June 2009	Six months ended 30 June 2008
	US$'000	US$'000
Salaries and other short term employee benefits	**2,175**	974
Directors' fees in non executive capacity	**117**	110
Emoluments in their executive capacity	**67**	—
	2,359	1,084

19. RELATED PARTY TRANSACTIONS (Continued)

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

	30 June 2009	31 December 2008
	US$'000	US$'000
Trade receivables from related parties:		
The parent	**5**	11
Other related parties	**19,020**	8,699
	19,025	8,710
Other receivables and prepayments from related parties:		
Other related parties	**2,333**	4,067
	2,333	4,067
Trade payables to related parties:		
Other related parties	**1,530**	1,650
	1,530	1,650
Other payable and advances to/from related parties:		
The parent	**36,886**	76,023
Other related parties	**2,960**	5,501
	39,846	81,524

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

Other payable to the Parent relates to the consideration for the acquisition of Spacecom AS and Intopex Trans AS.

(g) Loans to related parties

	30 June 2009	31 December 2008
	US$'000	US$'000
Other related parties:		
Beginning of period	**—**	3,363
Loans repayments received	**—**	(3,445)
Interest charged	**—**	9
Foreign exchange gain	**—**	73
End of period (Note 10)	**—**	—

The loans to related parties arise from transactions with entities under common control and were repaid in the period ended 30 June 2008. The loans carried interest at 12.5%.

19. RELATED PARTY TRANSACTIONS (Continued)

(h) Loans from related parties

	30 June 2009	31 December 2008
	US$'000	US$'000
The parent:		
Beginning of period	**18,379**	78,726
Loans advanced during the period	**—**	7,000
Loans repaid during the period	**(12,865)**	(63,943)
Interest charged	**540**	5,233
Interest repaid	**(2,661)**	(5,488)
Foreign exchange gain/(loss)	**138**	(3,149)
End of period	**3,531**	18,379
Other related parties:		
Beginning of period	**—**	195
Interest repaid	**—**	(195)
End of period	**—**	—
Current	**531**	2,817
Non-current	**3,000**	15,562
End of period (Note 13)	**3,531**	18,379

Period ended 30 June 2009:

The balance at the period end carries interest at 8.5% and is payable on 31 December 2010.

(i) Other transactions with related parties

In February 2009 the Board of Directors of the Company entered into additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle the instalment ahead of schedule and the Parent entity agreed to offer a discount on the total purchase price should such early settlement be made by the Company.

The Company has settled the instalment which was due no later than 1 May 2009 on 11 February 2009 and as a result received a discount from the Parent entity on the total purchase price of AS Spacecom and AS Intopex Trans of US$195 thousand and US$22 thousand respectively.

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Group settled the following obligations (in each case no early settlement charge was imposed or discount provided):

- Bank borrowings for the total amount of US$8,941 thousand;
- Early settlement of finance lease liabilities in the total amount of US$5,396 thousand;
- Partial early settlement of finance lease liabilities in the total amount of US$9,344 thousand (incl. VAT);

The Group received the following borrowings:

- Bank borrowings for the total amount of US$25,567 thousand (RR800,000);

20. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE (Continued)

In July—August 2009 the Group has received 34 gondola-cars from third parties for the total amount of US$2,397 thousand which were included under prepayments for the property, plant and equipment as at 30 June 2009.

In July—August 2009 the Group has received 28 platforms from third parties for the total amount of US$1,397 thousand which were included under prepayments for the property, plant and equipment as at 30 June 2009.

In July 2009, the Group has concluded two finance lease agreements with a third party, where the Group acts as a lessor of 152 hopper-cars.

In July 2009 a Company's subsidiary accrued and paid bonuses to its employees based on the results of financial year 2008 in the total amount of US$1,769 thousand (RR55,340 thousand).

21. SEASONALITY

The operations of the Group are not subject to seasonal fluctuations.

Globaltrans Investment Plc
(previously Globaltrans Investment Limited)

Directors' report and consolidated financial statements for the year ended 31 December 2008

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

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

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

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

Mr. Sergey Maltsev (appointed 21 March 2008)
Executive Director
Chief Executive Officer

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

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

Mr. Konstantin Shirokov (appointed 19 March 2008)
Executive Director

Mr. Michael Thomaides (resigned 21 March 2008)
Executive Director

Board support

The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures. Also a procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.

Company Secretary

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

Registered office
20 Omirou Street
Agios Nicolaos
CY-3095 Limassol, Cyprus

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report together with the audited financial statements for the year ended 31 December 2008. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

Change of name and conversion into a public company

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment Plc and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The change of name was approved by the Registrar of Companies on 15 April 2008.

On 19 March 2008, the Company adopted a written resolution by which the Articles of Association of the Company were replaced with the amended Articles of Association of a public limited liability company in accordance with the provisions of the Companies Law, Cap 113.

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

Throughout the first part of the year, the Group took advantage of the favourable economic conditions to achieve strong operating and financial performance and towards the latter part of the year took the necessary steps to position the Group to manage the challenging conditions expected in 2009.

As a result, in 2008 the Group maintained its leading position as the largest private freight rail operator in Russia, significantly expanding its rolling stock fleet. The Group have continued its growth in 2008 with increase in its net profit compared to the year 2007 by US$4,635 thousand, increase in its total revenue by US$55,838 thousand and increase in its operating profit by US$62,733 thousand compared with 2007.

The market share of the Group remained relatively steady in 2008.

The net profit of the Group for the year ended 31 December 2008 was US$97,376 thousand (2007: US$ 92,741 thousand). On 31 December 2008 the total assets of the Group were US$996,060 thousand (2007: US$957,740 thousand) and net assets were US$421,442 thousand (2007: US$278,828 thousand).

The financial position, development and performance of the Group as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

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

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

The Board has adopted a formal process to identify, evaluate and manage significant risks faced by the Group.

Future developments

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

The Group continued to diversify geographically into other CIS markets, establishing a subsidiary company to service the Ukrainian market and acquiring two Estonian subsidiaries engaged in the operating lease of rolling stock primarily to the markets in Russia and Kazakhstan.

Results

The Group's results for the year are set out on page 12 [F-43]. The Board of Directors recommended the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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 Global Depositary Receipts (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 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.

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company's subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the law.

During 2008, the Board of Directors declared and the shareholders approved the payment of an interim dividend in respect of the year ended 31 December 2008 of US$0.89 per share, amounting to a total dividend of US$8,900,000. The dividend was paid before 30 April 2008 (Note 20).

Share capital

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.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$ 13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares to the public.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1 [F-31].

Mr. Thomaides resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors in 2008 amounted to US$305,224 (2007: NIL).

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 31 to the financial statements.

Branches

The Group operates through branches and representative offices, maintaining nine branches and seven representative offices during 2008, ten branches and six representative offices during 2007.

Treasury shares

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the accounts based on the fact that, after making enquiries and following a review of the Group's budget for 2009, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By Order of the Board

s/Alexander Eliseev

Alexander Eliseev
Chairman of the Board of Directors

Limassol
10 April 2009

CORPORATE GOVERNANCE REPORT

The Group is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Group's Code of Corporate Governance which guarantees that the interests of all company shareholders are given due consideration. The Code is based on principles recommended by the UK Combined Code on Corporate Governance issued in July 2003. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

Board of Directors

The Board leads the process for new Board members' appointments and makes recommendations to shareholders. All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years for a Non-Executive Director is subject to particularly rigorous review, and takes into account the need for progressive refreshing of the Board.

The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1 [F-31].

Mr. Thomaides, resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

The Role of the Board

The Board of Directors' role is to provide entrepreneurial leadership to the Group. The Board of Directors sets the corporate strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors sets the Group's values and standards and ensures that its obligations to its shareholders are understood and met. The Board of Directors maintains a sound system of internal control and enterprise risk management to safeguard its shareholders' investment and the Group's assets.

Board Performance

The Board held 16 meetings in 2008. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	10
Michael Zampelas	15
Hans Durrer	15
Sergey Maltsev	6
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

Evaluation of the Performance of the Board

The operation of the Board of Directors, its Committees and individual Directors is subject to annual evaluation. The evaluation of the Board of Directors and individual Directors' performance is made through self-assessment, cross-assessment or by an external third party. The Non-Executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman of the Board of Directors.

The Board Committees

The Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee

The Audit Committee comprises two Directors, one of whom is considered to be independent, and meets at least four times each year. The Audit Committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The audit committee is responsible for considering, amongst other matters:

- the integrity of the Group's financial statements, including its annual and interim accounts, and the effectiveness of the Group's internal controls and risk management systems;
- auditors' reports; and
- the terms of appointment and remuneration of the auditor.

The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues. The audit committee also assesses the efficiency of the work of the Chairman of the Board of Directors.

The report of the Audit Committee can be found on page 6 [F-36].

Nomination Committee

The Nomination Committee comprises three Directors and meets at least once each year. The Nomination Committee is chaired by Dr. Durrer; the other members being Mr. Zampelas and Mr. Loganov. The committee's remit is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Group's stage of development and makes recommendations to the Board of Directors as to any changes. The committee also considers future appointments in respect of the Board of Directors composition as well as makes recommendations regarding the membership of the audit and remuneration committees.

Remuneration Committee

The Remuneration Committee comprises three directors and meets at least once each year. The remuneration committee is chaired by Dr. Durrer and Mr. Zampelas and Mr. Eliseev are other members. The remuneration committee has as its remit the determination and review of, amongst other matters, the remuneration of executive directors and review of the Group's remuneration policies. The remuneration of independent directors is a matter of 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.

The report of the Remuneration Committee can be found on page 8 [F-38].

Board and Management Remuneration

Non-executive directors serve on the Board pursuant to the letters of appointment which are subject to approval by the shareholders at the Annual General Meeting. Such letters of appointment specify the terms of appointment and the remuneration of non-executive directors. Appointments are for one year.

Levels of remuneration for Non-Executive Directors reflect the time commitment, responsibilities of the role and membership of the respective committees of the Board. Directors are also reimbursed for expenses associated with discharge of their duties.

Refer to Note 29 to the Financial Statements for detail of remuneration paid to the members of key management.

Audit Committee Report

Role of the Audit Committee

The Audit Committee assists the Board of Directors in discharging its corporate governance responsibilities in relation to:

- the reliability and appropriateness of disclosures in the financial statements and external financial communication;

- the maintenance of an effective system of internal controls including financial, operational and compliance controls and a risk management system. The Audit Committee ensures, by means of suitable steps and appropriate information, that proper and satisfactory internal control and risk management systems are in place to identify and control business risks and that the Company's business, and that of its subsidiaries, is conducted in a proper and economically sound manner;
- preparation of recommendations to the shareholders for their approval at the General Meeting in relation to the appointment, reappointment and removal of the external auditor;
- approval of the remuneration and terms of engagement of the external auditor in respect of audit services provided;
- the audit process, including monitoring and review of the external auditor's performance, independence and objectivity;
- development and implementation of the policy on non-audit services provided by the external auditor; and
- monitoring compliance with laws and regulations and standards of corporate governance.

The Audit Committee assists the Board of Directors in its oversight of the performance and leadership of the internal audit activity.

Where the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it makes recommendations to the Board of Directors on action needed to address the issue or to make improvements.

The Composition of the Audit Committee

Since March 2008 the audit committee comprises two directors, one of whom is considered to be independent, and meets at least four times each year. The audit committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The composition of the Audit Committee is not fully compliant with the Combined Code, since the members of the Committee are not drawn wholly from the Board's independent non-executive directors.

Report of the activities of the Audit Committee in 2008

The Audit Committee met 19 times in 2008, including two meetings with the management of the Group and four meetings which were attended by the external auditors of the Group.

The principal issues which were considered during 2008 were:

- Review of the external auditor's letter to the Audit Committee following their full year audit for 2007;
- Review of the financial statements of the Company and consolidated financial statements of the Group for 2007 and recommended approval of the same to the Board of Directors;
- Review of the Interim Financial results for 6 months of 2008 and recommended approval to the Board of Directors;
- Review of the terms of appointment of the external auditor of the Group for the year 2008 and recommended re-appointment to the Board of Directors who in turn proposed the re-appointment of the external auditors to the Annual General Meeting of shareholders of the Company;
- Oversight of the reporting process, review of the audit plan and closure process;
- Review of the internal audit process and making enquiries and recommendations for the improvement of this function in 2009.

Non-audit services

It is the Group's policy not to engage the external auditor for services which may cause conflict of interest and affect their independence. According to the External Auditor Independence Policy, adopted by the Company in 2008, the External Auditor shall not provide prohibited services. In compliance with generally accepted principles, prohibited services include services where the External Auditor:

- participates in activities that are normally undertaken by management of the Company;

- is remunerated through success fees, contingent fees or commission;
- acts in an advocacy role for the Company;
- may be required to audit its own work.

In particular, the following services are determined as prohibited services:

- book-keeping or providing other services in relation to accounting records and financial statements;
- designing and implementing financial information systems or financial controls;
- providing valuation services, appraisals or fairness opinions;
- providing internal audit sourcing services in regard to financial processes and controls;
- seconding employees to the Company where the secondee acts as a Company officer or employee, or performs any decision-making, supervisory or ongoing monitoring function;
- providing human resources and recruitment services;
- providing actuarial services;
- providing management and directorship functions;
- providing legal services;
- providing broker-dealer, investment advisor or investment banking services;
- providing expert services unrelated to the external audit (e.g., advocacy in litigation proceedings, other than tax matters).

Evaluation of the operations of the Audit Committee and individual members

The operations of the Audit Committee and individual Directors shall be subject to annual evaluation. The evaluation of the Audit Committee and individual Directors' performance is made through self-assessment or by an external third party. The results of annual performance evaluation are communicated to the Chairman of the Board of Directors.

External Auditor

PricewaterhouseCoopers continues to serve as the external auditor of the Group and the Company for the fifth consecutive year; PricewaterhouseCoopers' foreign offices also act as the external auditors of all subsidiaries of the Company. According to internal procedures, the Company shall require the External Auditor to rotate the senior audit partner for the Company every seven years with suitable succession planning to ensure consistency.

Remuneration Committee Report

Since March 2008, the Remuneration Committee has comprised three directors. The Remuneration Committee is chaired by Dr. Durrer; Mr. Zampelas and Mr. Eliseev are the other members.

The Remuneration Committee is a committee of the Board of Directors which assists the Board of Directors in discharging its responsibilities in relation to remuneration of all Executive Directors and the Chairman of the Board of Directors. The main objective of the Remuneration Committee is to determine the framework and policy for the remuneration of the Executive Directors, the Chairman of the Board of Directors and senior executives, and the specific remuneration of each Executive Director and the Chairman of the Board and any compensation payments.

The remuneration committee met twice in 2008 to discuss its roles and responsibilities and to consider the appropriateness of the level of remuneration of the executive directors of the Company.

Remuneration information for 2008

The following section contains detailed information and commentary on the Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2008.

It should be noted that no director currently receives any long-term incentives, pension benefits or share interests.

The Non-Executive Directors receive fees from Globaltrans Investment Plc. No other remuneration is given in respect of their non-executive duties, such as annual incentives, share-based incentives or pension benefits. The level of their fees reflects their commitment and contribution to the Company.

Directors' remuneration

The remuneration of Directors who served during 2008 was as follows:

	Salary and/or fees	2008 Total	2007 Total
	US$'000s	US$'000s	US$'000s
Alexander Eliseev	—	**—**	—
Michael Zampelas	72	**72**	—
Hans Durrer	112	**112**	—
Sergey Maltsev	286(1)	**286**	—
Elia Nicolaou	2	**2**	—
Konstantin Shirokov	—	**—**	—
Mikhail Loganov	120	**120**	—
Michael Thomaides	—	**—**	—

(1) Gross salary received in 2008 from OJSC New Forwarding Company in his capacity as Counsellor to the Director-General.

Directors' interests

The interests in the share capital of Globaltrans Investment Plc and its group companies, both direct and indirect, of those who were Directors as at 31 December 2008 is shown below:

	Type of holding	Shares/Global Depositary receipts held at 31 December 2008	Shares held at 31 December 2007
Alexander Eliseev	Through shareholding in Envesta Investments Ltd	11,201,262(2)	1,470,000(1)
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456(2)	1,530,000(1)
Hans Durrer	GDRs of Globaltrans Investment Plc	100,000	—

(1) Total number of shares as at 31 December 2007 equalled 10,000,000.

(2) Total number of shares as at 31 December 2008 equalled 116,959,064.

The Report has been approved by the Board on 10 April 2009 and signed on behalf of the Board by Hans Durrer.

Directors' responsibility

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Each of the Director's confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 12 [F-43] to 61 [F-103]) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as whole.

By order of the Board

s/Sergey Maltsev	s/Mikhail Loganov
Sergey Maltsev Chief Executive Director	Mikhail Loganov Director

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GLOBALTRANS INVESTMENT PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Globaltrans Investment Plc (previously Globaltrans Investment Limited) (the "Company") and its subsidiaries (the "Group") on pages 12 to 61, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 9 is consistent with the consolidated financial statements.

Other Matter

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

s/PricewaterhouseCoopers Limited

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 10 April 2009

GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008	2007
		US$'000	US$'000
Revenue	5	**660,870**	605,032
Cost of sales	6	**(401,397)**	(419,897)
Gross profit		**259,473**	185,135
Selling and marketing costs	6	**(2,179)**	(1,374)
Administrative expenses	6	**(52,735)**	(45,003)
Other gains—net	7	**3,209**	6,277
Operating profit		**207,768**	145,035
Finance income	9	**3,394**	6,148
Finance costs	9	**(99,777)**	(29,950)
Finance costs—net	9	**(96,383)**	(23,802)
Share of profit/(loss) of associates	13	**556**	(658)
Profit before income tax		**111,941**	120,575
Income tax expense	10	**(14,565)**	(27,834)
Profit for the year		**97,376**	92,741
Attributable to:			
Equity holders of the Company		**90,934**	86,364
Minority interest		**6,442**	6,377
		97,376	92,741
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	25	**0.82**	0.86

The notes on pages F-47 to F-103 are an integral part of these financial statements.

GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2008

	Note	2008	2007
		US$'000	US$'000
Assets			
Non-current assets			
Property, plant and equipment	12	**741,915**	769,525
Trade and other receivables	16	**28,023**	20,467
Investment in associate	13	**926**	399
		770,864	790,391
Current assets			
Inventories	17	**660**	544
Trade and other receivables	16	**101,774**	132,624
Current income tax assets		**11,160**	852
Cash and cash equivalents	18	**111,602**	33,329
		225,196	167,349
Total assets		**996,060**	957,740
Equity and liabilities			
Capital and reserves			
Share capital	19	**11,696**	10,000
Share premium	19	**279,145**	61,560
Common control transaction reserve		**(158,527)**	(88,008)
Translation reserve		**(57,233)**	30,804
Capital contribution		**90,000**	90,000
Retained earnings		**230,036**	148,002
		395,117	252,358
Minority interest		**26,325**	26,470
		421,442	278,828
Non-current liabilities			
Borrowings	22	**321,318**	370,111
Trade and other payables	24	**24,129**	427
Deferred gains	21	**508**	1,507
Deferred tax liabilities	23	**15,563**	23,368
		361,518	395,413
Current liabilities			
Borrowings	22	**124,310**	176,451
Trade and other payables	24	**85,836**	102,632
Deferred gains	21	**920**	1,799
Current tax liabilities		**2,034**	2,617
		213,100	283,499
Total liabilities		**574,618**	678,912
Total equity and liabilities		**996,060**	957,740

On 10 April 2009 the Board of Directors of Globaltrans Investment Plc (previously Globaltrans Investment Limited) authorised these financial statements for issue.

s/Sergey Maltsev

Sergey Maltsev,
Director

s/Mikhail Loganov

Mikhail Loganov,
Director

The notes on pages F-47 to F-103 are an integral part of these financial statements.

GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Common control transaction reserve(2)	Translation reserve	Capital contribution(1)	Retained earnings	Total	Minority interest	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2007		10,000	61,560	51,992	11,632	4,325	89,138	228,647	17,966	246,613
Currency translation differences		—	—	—	19,172	—	—	19,172	2,412	21,584
Net income recognised directly in equity		—	—	—	19,172	—	—	19,172	2,412	21,584
Profit for the year		—	—	—	—	—	86,364	86,364	6,377	92,741
Total recognised income for 2007		—	—	—	19,172	—	86,364	105,536	8,789	114,325
Common control transaction	30	—	—	(140,000)	—	99,750	—	(40,250)	—	(40,250)
Dividend relating to 2006	20	—	—	—	—	—	(1,200)	(1,200)	—	(1,200)
Dividend relating to 2007	20	—	—	—	—	(14,075)	(26,300)	(40,375)	—	(40,375)
Advances from minority shareholders		—	—	—	—	—	—	—	34	34
Minority interest on disposal	26	—	—	—	—		—	—	(319)	(319)
Balance at 31 December 2007/1 January 2008		10,000	61,560	(88,008)	30,804	90,000	148,002	252,358	26,470	278,828
Currency translation differences		—	—	—	(88,037)	—	—	(88,037)	(1,083)	(89,120)
Net income recognised directly in equity		—	—	—	(88,037)	—	—	(88,037)	(1,083)	(89,120)
Profit for the year		—	—	—	—	—	90,934	90,934	6,442	97,376
Total recognised income for 2008		—	—	—	(88,037)	—	90,934	2,897	5,359	8,256
Issue of shares	19	1,696	223,012	—	—	—	—	224,708	—	224,708
Expenses directly related to issue of new shares	19	—	(5,427)	—	—	—	—	(5,427)	—	(5,427)
Interim dividend for 2008	20	—	—	—	—	—	(8,900)	(8,900)	—	(8,900)
Common control transaction	30	—	—	(76,023)	—	—	—	(76,023)	—	(76,023)
Minority interest on acquisition		—	—	5,504	—	—	—	5,504	(5,504)	—
Balance at 31 December 2008		**11,696**	**279,145**	**(158,527)**	**(57,233)**	**90,000**	**230,036**	**395,117**	**26,325**	**421,442**

(1) In May 2007, the shareholders of the Company transferred their shareholding in OOO Sevtekhnotrans to the Company. 28.75% of shares was acquired 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 OOO Sevtekhnotrans has been accounted as a common control transaction using the predecessor basis. 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.

(2) In December 2008, the Company acquired from its parent entity 61% share of AS Spacecom and 65% share of AS Intopex Trans. The acquisition of AS Spacecom and AS Intopex Trans has been accounted as a common control transaction using the predecessor basis (Note 2 and 30).

The notes on pages F-47 to F-103 are an integral part of these financial statements.

GLOBALTRANS INVESTMENT PLC (PREVIOUSLY GLOBALTRANS INVESTMENT LIMITED)
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008	2007
		US$'000	US$'000
Cash flows from operating activities			
Profit before tax		**111,941**	120,575
Adjustments for:			
Depreciation of property, plant and equipment	12	**45,707**	38,645
Loss/(gain) on sale of property, plant and equipment	12	**(2,596)**	(1,675)
Fair value (gain)/loss on financial guarantees	9	**(423)**	411
Gain on disposal of subsidiaries	7	**—**	(1,897)
Interest income	9	**(3,394)**	(6,148)
Interest expense	9	**51,980**	56,232
Share of profit of associates	13	**(556)**	658
Exchange losses/(gains) on financing activities	9	**48,220**	(26,693)
Recognised deferred gain	7	**(1,737)**	(2,081)
		249,142	178,027
Changes in working capital:			
Inventories		**(116)**	(505)
Trade and other receivables		**7,266**	16,826
Trade and other payables		**(46,685)**	40,772
Cash generated from operations		**209,607**	235,120
Tax paid		**(29,642)**	(21,118)
Net cash from operating activities		**179,965**	214,002
Cash flows from investing activities			
Acquisition of subsidiaries—net of cash acquired	26/30	**—**	(40,250)
Loans granted to third parties		**(54)**	(711)
Disposals of subsidiaries—net of cash disposed	26	**—**	(1,407)
Loans repayments received from related parties	29	**3,128**	830
Loans repayments received from third parties		**300**	551
Purchases of property, plant and equipment		**(140,026)**	(99,199)
Proceeds from disposal of property, plant and equipment	12	**2,202**	13,633
Interest received		**3,390**	5,967
Receipts from finance lease receivable		**21,228**	12,982
Net cash used in investing activities		**(109,832)**	(107,604)
Cash flows from financing activities			
Proceeds from borrowings		**436,512**	806,835
Repayments of borrowings		**(520,553)**	(808,682)
Finance lease principal payments		**(81,372)**	(82,225)
Interest paid		**(53,257)**	(58,299)
Proceeds from sale and finance leaseback transactions		**40,880**	41,654
Proceeds from issue of shares—net		**209,087**	—
Dividends paid to Company's shareholders		**(19,542)**	(30,123)
Net cash (used in)/from financing activities		**11,755**	(130,840)
Net (decrease)/increase in cash and cash equivalents		**81,888**	(24,442)
Exchange (losses)/gains on cash and cash equivalents		**(1,522)**	(1,746)
Cash and cash equivalents at beginning of year	18	**31,024**	57,212
Cash, cash equivalents and bank overdrafts at end of year	18	**111,390**	31,024

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-47 to F-103 are an integral part of these financial statements.

1. GENERAL INFORMATION

Country of incorporation

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

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment Plc and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 10 April 2009.

Principal activities

The principal activity of the Group, following the common control transaction in December 2008, is the provision of railway transportation services using own or leased rolling stock and operating lease of rolling stock.

Group structure

Globaltrans Investment Plc (previously Globaltrans Investment Limited) has direct and indirect shareholding in the following investments in subsidiaries:

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2008	2007
Sevtekhnotrans OOO	Subsidiary	Russia	Railway transportation	100	100
OJSC New Forwarding Company	Subsidiary	Russia	Railway transportation	100	100
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	—
AS Spacecom	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	51
AS Skinest Veeremi	Subsidiary	Estonia	Operating lease of rolling stock	61	51
Hoover SIA	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	61	51
AS Intopex Trans	Subsidiary	Estonia	Operating lease of rolling stock	65	65

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans, companies engaged in operating lease of rolling stock and provision of freight forwarding services. The acquisition of both companies has been accounted for as a common control transaction using the predecessor basis and the consolidated financial statements for the year ended 31 December 2007 have been restated in order to reflect the acquisition (Note 2).

AS Skinest Veeremi and Hoover SIA are wholly owned subsidiaries of AS Spacecom, thus 61% indirect shareholding in AS Skinest Veeremin and 61% indirect shareholding in Hoover SIA was acquired via the acquisition of 61% shareholding in AS Spacecom.

The effective interest held by the parent entity as at 31 December 2007 in AS Spacecom was 51%, therefore, this share is shown as the effective interest held by the Company in AS Spacecom (and

1. GENERAL INFORMATION (Continued)

subsequently in its subsidiaries and associate) as at 31 December 2007 following the common control transaction in December 2008.

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.

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) and the Cyprus Companies Law Cap. 113.

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2008 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. IFRIC 12 "Service Concession Arrangements" has been endorsed by the EU on 26 March 2009 and its mandatory effective date was changed from annual periods beginning on or after 1 January 2008 in IFRIC 12 to an entity's first financial year starting after 29 March 2009 in the EU-endorsed version, but with earlier adoption permitted.

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

The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective (Items marked with * have not been endorsed by the European Union (EU); the Company will only be able to apply new IFRS and IFRICs when endorsed by the EU):

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

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 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 expected impact is being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2009.
- IAS 23 (Amendment) "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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The effect is expected to be significant to the Group as there are qualifying assets. The expected impact is being assessed in detail by management. The Group will apply the Standard from 1 January 2009.

- IAS 1 (Revised 2007) Presentation of Financial Statements" (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. The Group will apply the Standard from 1 January 2009.
- 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 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 purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. 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 any 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 revised IFRS 3 brings into 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.
- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements"* (effective from 1 July 2009)—The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.
- Improving Disclosures about Financial Instruments—Amendment to IFRS 7, "Financial Instruments and Disclosures" * (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group will be required to dislose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantees contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) required disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Group will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

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

- IFRS 1 (revised) 'First-time adoption'* (effective from 1 January 2009)—This standard that does not contain any technical changes as it only improves the structure, which had become complex due to the numerous amendments in recent years. The Group will apply the standard from 1 January 2009 but it is not expected to have any impact on the Group's financial statements.
- IFRS 2, Share-based Payment (Amendment 2008: Vesting Conditions and Cancellations) (effective from 1 January 2009)—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 2009 but it is not expected to have significant impact on the Group's financial statements.
- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate' (effective from 1 January 2009)—This amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements on transition to IFRS. An entity shall recognise a dividend from subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established. In addition when a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies certain criteria, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The Group will apply the standard from 1 January 2009 but it is not expected to have any impact on the Group's financial statements.
- IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation)* (effective from 1 January 2009)—These amendments address the classification of some puttable financial instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.
- IFRIC Interpretation 13 "Customer Loyalty Programmes" (effective from 1 July 2008) (EU IFRS: 1/1/2009)—Addresses the accounting for a company that awards customer loyalty credits.
- IFRIC 15, Agreements for the construction of real estate* (effective 1 January 2009)—Addresses the accounting for real estate sales.
- IFRIC 16, Hedges of a net investment in a foreign operation* (effective 1 October 2008)—Clarifies certain aspects in relation to net investment hedging.
- IFRIC 17, Distributions of non-cash assets to owners* (effective from 1 July 2009)—Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Group will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Group's financial statements.
- IFRIC 18, "Transfers of asset by customers"* (effective from 1 July 2009)—addresses the accounting of an asset received from a customer in return for connection to a network or ongoing access to goods and services.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement—Eligible hedged items'.* (effective from 1 July 2009)—This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

* *Standards and interpretations which have not yet been endorsed by the European Union.*

Basis of consolidation

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. 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 other business segments. The Group's risks and returns are strongly affected by both differences in its products and services and the geographical areas in which it operates. Therefore, the Group has adopted a matrix presentation approach where both business and geographical segments are shown as primary segment reporting formats with full segment disclosures on each basis.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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:

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".

Revenue is recognised in accordance to the stage of completion of the transaction.

(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. Revenue is recognised in accordance to the stage of completion of the transaction.

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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Interest income

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

Dividend income

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

Foreign currency translation

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.

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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other gains—net'.

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 as follows:

- 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 of the average exchange rates for January to August and average monthly rates for the remaining months of the year, 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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

Land is not depreciated.

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
Buildings	30
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 have indefinite useful life are not subject to amortisation and are tested annually for impairment.

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Leases

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

The Group is the lessee

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.

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.

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

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).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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 and cash and cash equivalents in the balance sheet.

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 asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Inventories

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

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 and contingent liabilities

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

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

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

Provisions are only used to cover those expenses which they had been set up for. Other possible or present obligations that arise from past events but it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligations; or the amount cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

Current and deferred income tax

The tax expense for the period comprises of current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

Current income 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretations and establishes provisions where appropriate on the basis of amounts expected to be paid to 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 financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only 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 associates except where the Group can control the timing of the reversal 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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Dividend distribution

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

Comparatives

The acquisition of 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans is a common control transaction and accounted for using the predecessor basis of accounting. Under this method the financial statements of the acquirees are included in the consolidated financial statements on the assumption that the Group was in existence for all periods presented. Necessary changes have been made to the comparative balances to conform with the Group's accounting policy (Note 30).

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.

Market risk

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 a large proportion 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, depreciation in the value of Russian Rouble against the US Dollar from December 2008 onwards, leads to the Group realising a foreign exchange loss on its US dollar denominated borrowings (Note 31). 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 amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2008 and 31 December 2007 are as follows:

	2008	2007
	US$'000	US$'000
Assets	**105,896**	24,607
Liabilities	**463,184**	424,403
Capital commitments	**—**	32,418

Had US dollar exchange rate strengthened/weakened by 33% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2008, would have decreased/increased by US$95,299 thousand (2007: 6% change, effect US$14,386 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US dollars for the Russian subsidiaries of the Group.

3. FINANCIAL RISK MANAGEMENT (Continued)

Had US dollar exchange rate strengthened/weakened by 25% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2008, would have decreased/increased by US$17,126 thousand (2007: 6% change, effect US$5,037 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US Dollar for the Estonian subsidiaries of the Group.

The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group also intends to re-finance some of its US Dollar denominated liabilities by obtaining long term debt denominated in Russian Roubles. However, as the US dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate, a substantial portion of the Group's long term borrowings continue to be in US dollars.

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 Euro 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$2,437 thousand for the year ended 31 December 2008. Had the Russian rouble lease and credit interest rates shift by 2% (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$672 thousand for the year ended 31 December 2008 (2007: 1% change in US dollar, Euro and Russian rouble lease and credit interest rates, effect US$1,920 thousand).

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.

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 73.92% of the Group's trade and other receivables as at 31 December 2008 (2007: 68.46%).

These figures include trade and other receivables arising from business with related parties which account for 17.36% as at 31 December 2008 (2007: 36.86%).

In addition, current and non-current finance lease receivables arise from business with one customer only (two in 2007).

3. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2008 and 31 December 2007:

	Fully performing	Past due	Impaired	Impairment provision	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2008					
Trade receivables	10,244	26,888	2,634	(2,634)	37,132
Loans originated	120	—	—	—	120
Other receivables[1]	3,920	13,837	—	—	17,757
Finance lease receivables	6,993	—	—	—	6,993
	21,277	**40,725**	**2,634**	**(2,634)**	**62,002**
As of 31 December 2007					
Trade receivables	17,150	8,920	2,900	(2,900)	26,070
Loans originated	3,727	—	—	—	3,727
Other receivables[1]	10,636	7,009	—	—	17,645
Finance lease receivables	28,471	—	—	—	28,471
	59,984	**15,929**	**2,900**	**(2,900)**	**75,913**

(1) Other receivables exclude other taxes receivable as the analysis is provided for financial assets only.

Liquidity risk

The Group has a net working capital surplus of US$12,096 thousand (2007: deficit US$116,150 thousand) as at 31 December 2008.

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$27,992 thousand for 2008 (2007: US$60,228 thousand), together with long-term borrowings (Note 22) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2008 and 31 December 2007. The amounts in the table are contractual undiscounted cash flows. Trade and

3. FINANCIAL RISK MANAGEMENT (Continued)

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 1 and 2 years	Between 2 and 5 years	Over five years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2008								
Borrowings	11,740	43,270	37,428	62,150	139,537	214,322	11,541	519,988
Trade and other payables[1]	34,505	13,442	9,507	12,406	24,129	—	—	93,989
	46,245	**56,712**	**46,935**	**74,556**	**163,666**	**214,322**	**11,541**	**613,977**
As of 31 December 2007								
Borrowings	26,861	91,053	29,371	67,208	154,767	278,192	19,684	667,136
Trade and other payables[1]	21,586	18,693	2,580	—	427	—	—	43,286
	48,447	**109,746**	**31,951**	**67,208**	**155,194**	**278,192**	**19,684**	**710,422**

(1) Statutory liabilities are excluded as the analysis is provided for financial liabilities only

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 2008 and 31 December 2007 are as follows:

	2008	2007
	US$'000	US$'000
Total borrowings	**445,628**	546,562
Total capitalisation	**867,070**	825,390
Total borrowings to total capitalisation ratio (percentage)	**51.39%**	66.22%

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

3. FINANCIAL RISK MANAGEMENT (Continued)

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, appropriate valuation methodologies and assistance of experts. 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.

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) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 27).

(ii) Recoverability of Advances issued

As at 31 December 2008, the Group issued advances for the purchase of rolling stock amounting to $21,092 (Note 16).

These advances are overdue, but management does not intend to recover them in cash, as this will result in damaging relations between the parties at the time when all companies experience financial difficulties. Thus the shipments will still be made at pre-crisis prices.

The Group have obtained letters of guarantee from suppliers and started to receive rolling stock, however with a substantial delay.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

Management has incorporated rolling stock to be purchased with the use of advances issued in the rolling stock impairment testing, which has not resulted in any significant impairment loss.

Subsequent to year end 50 gondola cars and 14 platforms for a total amount of US$5,027 thousand have been received (Note 31). Management believes that all rolling stock contracted will be received.

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$147,998 thousand for the year ended 31 December 2008 (US$191,591 thousand for the year ended 31 December 2007).

(ii) The Group agrees with the customer the transport fee as above, excluding the OAO "Russian Railways" tariff which is paid by the Group and reinvoiced to the client as reimbursement. Management believes that OAO "Russian Railways" tariff should not be included in revenue and cost of sales as any variation in the tariff will be borne by the client. Had this OAO "Russian Railways" tariff been included in revenues and cost of sales, both would have increased by US$2,013 thousand for the year ended 31 December 2008 (US$5,195 thousand for the year ended 31 December 2007).

(ii) Impairment of assets

The Group reviews long-lived assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. If the total of the discounted future cash flows is less than the carrying amount of the asset or group of assets, the asset is not recoverable and an impairment loss is recognised for the difference between the estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) and the carrying value of the asset or group of assets. Long-lived assets are assessed for possible impairment upon the occurrence of a triggering event. Events that can trigger assessments for possible impairments include, but are not limited to (a) significant decreases in the market value of an asset, (b) significant changes in the extent or manner of use of an asset, and (c) a physical change in the asset. Estimating discounted future cash flows requires us to make judgments about long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts are uncertain as they require assumptions about demand for our services, future market conditions' and future technological developments. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and specific times, the Group cannot reasonably quantify the impact of changes in these assumptions. Based on the current world-wide economic circumstances, the Group performed a test of the estimated recoverable amount of the cash generating unit compared to its carrying value.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

The smallest cash generating unit to which this can be applied is by type of rolling stock for the Russian subsidiaries and by type of rolling stock for each legal entity for the Estonian subsidiaries. The impairment review took account of the recoverable amount of this cash generating unit which was based on a value in use calculation utilising the unit's annual budget for the forthcoming year and forecasts for the following years up to the end of their useful lives. Projected cash flows have been discounted using a pre-tax discount rate of 18.57% for the Russian subsidiaries and 15.8% for the Estonian subsidiaries.

A substantial excess of value in use over the carrying amount of rolling stock was identified for all categories of property, plant and equipment, except for platforms, which have been contracted to be purchased by the Group for a total amount of US$6,634 thousand.

For platforms assessment, in the absence of prior experience of operating this type of rolling stock, management assumed profitability to be the same as for gondola cars. This resulted in value in use approximating the carrying value of this rolling stock. Should the assumptions on profitability associated with the operation of platforms be different, impairment might have been recognised, however, given the nature of these assumptions and the absence of reliable information relating to the operation of this type of rolling stock, the Group cannot reasonably quantify the impact of changes in these assumptions.

As a result of test performed no deficit of value in use over the net carrying value of rolling stock has been identified, consequently, no impairment loss has been recognised in these financial statements.

5. SEGMENTAL INFORMATION

Matrix presentation format—geographical and business segments

Previously, the Group operated mainly in the Russian Federation and the operations were not subdivided into smaller geographical segments.

Due to the fact that the Group acquired from its shareholder, 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans, companies incorporated in Estonia, the consolidated financial statements will provide a geographic segmental analysis in order to reflect the acquisition. The geographical segmental analysis is based on the location of the Group's assets.

Currently, the Group's risks and returns related to assets and operations are strongly affected by both differences in services (railway transportation and operating lease activities) and differences in the geographical areas in which it operates (Russia, Estonia and Ukraine). The subsidiaries operating in each of the segments are disclosed in Note 1.

Segment profit is obtained by allocating the activities of the respective subsidiaries into two main business segments:

- Railway transportation services;
- Operating lease of rolling stock.

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

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

Capital expenditure comprises additions to property, plant and equipment incurred by the respective subsidiaries.

Activity of resale of wagons and locomotives has been reduced and no longer constitutes a separately reportable segment and is included within 'other' business segment.

The Group does not have transactions between different business segments.

5. SEGMENTAL INFORMATION (Continued)

The segment results for the year ended 31 December 2008 are as follows:

	Railway transportation services				Operating lease of rolling stock			Other	Total business segment				
	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total segment revenue	595,941	8,698	—	**604,639**	6,674	39,831	**46,505**	9,726	612,341	48,529	—	—	**660,870**
Cost of sales	(370,286)	(10,494)	—	**(380,780)**	(1,187)	(10,464)	**(11,651)**	(8,966)	(380,439)	(20,958)	—	—	**(401,397)**
Selling, marketing and administrative expenses	(40,236)	(645)	(62)	**(40,943)**	—	(3,613)	**(3,613)**	—	(40,236)	(4,258)	(62)	(10,358)	**(54,914)**
Other gains—net	1,611	—	—	**1,611**	—	1,649	**1,649**	—	1,611	1,649	—	(51)	**3,209**
Operating profit/Segment result	187,030	(2,441)	(62)	**184,527**	5,487	27,403	**32,890**	760	193,277	24,962	(62)	(10,409)	**207,768**
Finance income	468	—		**468**	—	20	**20**	—	468	20	—	2,906	**3,394**
Finance costs	(120,573)	—		**(120,573)**	—	(10,730)	**(10,730)**	—	(120,573)	(10,730)	—	31,526	**(99,777)**
Share of profit of associate	—	—		—	—	—	—	—	—	—	—	556	**556**
Profit before income tax	66,925	(2,441)	(62)	**64,422**	5,487	16,693	**22,180**	760	73,172	14,252	(62)	24,579	**111,941**
Income tax expense													**(14,565)**
Profit for the year													**97,376**

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

	Railway transportation services				Operating lease of rolling stock			Total business segment				
	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Impairment charge of receivables (Note 6)	(362)	—	—	**(362)**	—	(1,087)	**(1,087)**	(362)	(1,087)	—	—	**(1,449)**
Depreciation (Note 6)	(37,968)	—	—	**(37,968)**	(1,187)	(6,550)	**(7,737)**	(39,155)	(6,550)	—	(2)	**(45,707)**

5. SEGMENTAL INFORMATION (Continued)

The segments assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Railway transportation services				Operating lease of rolling stock			Other	Total business segment				
	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Russian subsidiaries	Estonian subsidiaries	Ukrainian subsidiary	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	712,275	—	97	**712,372**	11,364	163,383	**174,747**	237	723,876	163,383	97	108,704	**996,060**
Total liabilities	378,985	10,967	5	**389,957**	64	83,449	**83,513**	—	379,049	94,416	5	101,148	**574,618**
Capital expenditure	144,665	—	5	**144,670**	—	415	**415**	—	144,665	415	5	15	**145,100**

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

	Railway transportation services			Operating lease of rolling stock			Other	Total business segment			
	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Russian subsidiaries	Estonian subsidiaries	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total segment revenue	542,227	22,816	**565,043**	6,179	32,892	**39,071**	465	548,871	55,708	453	**605,032**
Cost of sales	(378,631)	(19,981)	**(398,612)**	(1,109)	(19,758)	**(20,867)**	(401)	(380,141)	(39,739)	(17)	**(419,897)**
Selling, marketing and administrative expenses	(38,445)	(1,597)	**(40,042)**	(2,081)	(2,432)	**(4,513)**	(12)	(40,538)	(4,029)	(1,810)	**(46,377)**
Other gains—net	1,989	—	**1,989**	2,097	2,036	**4,133**	—	4,086	2,036	155	**6,277**
Operating profit/Segment result	127,140	1,238	**128,378**	5,086	12,738	**17,824**	52	132,278	13,976	(1,219)	**145,035**
Finance income	109	—	**109**	—	13	**13**	—	109	13	6,026	**6,148**
Finance costs	(29,970)	—	**(29,970)**	(81)	778	**697**	—	(30,051)	778	(677)	**(29,950)**
Share of profit of associate	—	—	—	—	—	—	—	—	—	(658)	**(658)**
Profit before income tax	97,279	1,238	**98,517**	5,005	13,529	**18,534**	52	102,336	14,767	3,472	**120,575**
Income tax expense											**(27,834)**
Profit for the year											**92,741**

5. SEGMENTAL INFORMATION (Continued)

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

	Railway transportation services		Operating lease of rolling stock			Total business segment			
	Russian subsidiaries	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Estonian subsidiaries	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Impairment charge of receivables (Note 6)	(1,948)	**(1,948)**	—	(144)	**(144)**	(1,948)	(144)	—	**(2,092)**
Depreciation (Note 6)	(31,218)	**(31,218)**	(1,208)	(6,218)	**(7,427)**	(32,426)	(6,218)	—	**(38,645)**

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

	Railway transportation services			Operating lease of rolling stock			Other	Total business segment			
	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Estonian subsidiaries	Total	Russian subsidiaries	Russian subsidiaries	Estonian subsidiaries	Unallocated	Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	723,518	1,216	**724,734**	14,920	178,522	**193,442**	1,810	740,248	179,738	37,754	**957,740**
Total liabilities	502,267	13,794	**516,061**	537	109,158	**109,695**	5,394	508,198	122,952	47,762	**678,912**
Capital expenditure	147,527	—	**147,527**	—	12,424	**12,424**	—	147,527	12,424	—	**159,951**

5. SEGMENTAL INFORMATION (Continued)

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

Year ended 31 December 2008

	Assets	Liabilities
	US$'000	US$'000
Segment assets/liabilities	887,356	473,470
Unallocated:		
Deferred tax	—	15,563
Current tax	11,160	2,034
Current borrowings	—	2,731
Non-current borrowings	—	4,398
Property, plant and equipment	11	—
Receivables	9,960	—
Payables	—	76,422
Cash and cash equivalents	87,573	—
Total	**996,060**	**574,618**

Year ended 31 December 2007

	Assets	Liabilities
	US$'000	US$'000
Segment assets/liabilities	919,986	631,150
Unallocated:		
Deferred tax	—	23,368
Current tax	852	2,617
Current borrowings	—	2,732
Non-current borrowings	—	7,108
Receivables	35,037	—
Payables	—	11,937
Cash and cash equivalents	1,865	—
Total	**957,740**	**678,912**

Analysis of revenue by category:

	2008		
	Russian subsidiaries	Estonian subsidiaries	Total
	US$'000	US$'000	US$'000
Railway transportation—operators services (tariff borne by the Group)	235,010	6,414	**241,424**
Railway transportation—operators services (tariff borne by the client)	337,436	—	**337,436**
Railway transportation—freight forwarding	3,128	2,284	**5,412**
Operating leasing of rolling stock (tank cars and open wagons)	15,567	39,453	**55,020**
Operating leasing of locomotives and hoppers	11,263	378	**11,641**
Sale of wagons and locomotives	9,726	—	**9,726**
Other	211	—	**211**
Total revenue	612,341	48,529	**660,870**

5. SEGMENTAL INFORMATION (Continued)

	2007			
	Russian subsidiaries	Estonian subsidiaries	Unallocated	Total
	US$'000	US$'000	US$'000	US$'000
Railway transportation—operators services (tariff borne by the Group)	272,443	19,641	—	**292,084**
Railway transportation—operators services (tariff borne by the client)	252,788	—	—	**252,788**
Railway transportation—freight forwarding	613	3,175	—	**3,788**
Operating leasing of rolling stock (tank cars and open wagons)	14,362	30,952	—	**45,314**
Operating leasing of locomotives and hoppers	6,178	201	—	**6,379**
Sale of wagons and locomotives	465	—	—	**465**
Other	2,022	1,739	453	**4,214**
Total revenue	548,871	55,708	453	**605,032**

6. EXPENSES BY NATURE

	2008	2007
	US$'000	US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**147,998**	191,591
Empty run trips and services provided by other transportation organisations	**101,220**	100,074
Operating lease rentals—rolling stock	**31,604**	38,660
Employee benefit expense	**9,816**	6,163
Repair and maintenance	**56,470**	43,950
Depreciation of property, plant and equipment	**44,949**	37,770
Gain on sale of property, plant and equipment	**(2,523)**	(1,672)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**8,967**	403
Other expenses	**2,896**	2,958
	401,397	419,897
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**758**	875
Gain on sale of property, plant and equipment	**(73)**	(3)
Employee benefit expense	**20,081**	23,647
Impairment charge of receivables	**1,449**	2,092
Operating lease rental—office	**4,191**	3,210
Auditors' remuneration	**1,585**	867
Legal, consulting and other professional fees	**9,858**	390
Advertising and promotion	**286**	144
Communication costs	**865**	669
Information services	**929**	762
Taxes (other than income tax and value added taxes)	**8,034**	6,693
Other expenses	**6,951**	7,031
	54,914	46,377

6. EXPENSES BY NATURE (Continued)

	2008 US$'000	2007 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**45,707**	38,645
Gain on sale of property, plant and equipment (Note 12)	**(2,596)**	(1,675)
Employee benefit expense (Note 8)	**29,897**	29,810
Impairment charge for receivables (Note 16)	**1,449**	2,092
Operating lease rentals—rolling stock	**31,604**	38,660
Operating lease rentals—office	**4,191**	3,210
Repairs and maintenance	**56,470**	43,950
Infrastructure and locomotive tariffs:		
Loaded trips	**147,998**	191,591
Empty run trips and services provided by other transportation organisations	**101,220**	100,074
Auditors' remuneration	**1,585**	867
Legal, consulting and other professional fees	**9,858**	390
Advertising and promotion	**286**	144
Communication costs	**865**	669
Information services	**929**	762
Taxes (other than income tax and value added taxes)	**8,034**	6,693
Other expenses	**9,847**	9,989
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	**8,967**	403
Total cost of sales, selling and marketing costs and administrative expenses	**456,311**	466,274

7. OTHER GAINS—NET

	2008 US$'000	2007 US$'000
Gain from sale of subsidiaries (Note 26)	**—**	1,897
Other gains	**2,147**	1,167
Other losses	**(146)**	(68)
Recognised deferred gains	**1,737**	2,081
Net foreign exchange losses (Note 11)	**(529)**	1,200
	3,209	6,277

8. EMPLOYEE BENEFIT EXPENSE

	2008 US$'000	2007 US$'000
Wages and salaries	**21,678**	19,870
Bonuses	**4,954**	6,664
Social insurance costs	**3,265**	3,276
	29,897	29,810

9. FINANCE INCOME AND COSTS

	2008 US$'000	2007 US$'000
Interest expense:		
Bank borrowings	**(16,449)**	(15,380)
Finance leases	**(29,817)**	(31,549)
Loans from:		
Related parties (Note 29 (d))	**(5,186)**	(8,394)
Third parties	**(528)**	(909)
Total interest expense	**(51,980)**	(56,232)
Net foreign exchange transaction (losses)/gains on financing activities (Note 11)	**(48,220)**	26,693
Other finance costs	**423**	(411)
Finance costs	**(99,777)**	(29,950)
Interest income:		
Bank balances	**1,842**	1,239
Finance leases—third parties	**1,161**	3,333
Finance leases—related parties (Note 29 (d))	**86**	1,523
Loans to:		
Related parties (Note 29 (d))	**9**	40
Third parties	**—**	11
Other	**296**	2
Finance income	**3,394**	6,148
Net finance costs	**(96,383)**	(23,802)

The Group was not engaged in any construction of assets during the year ended 31 December 2008 (2007: borrowing costs of US$1,648 thousand arising on financing specifically entered into for the construction of assets were capitalised and included in "additions" in property, plant and equipment).

10. INCOME TAX EXPENSE

	2008 US$'000	2007 US$'000
Current tax:		
Corporation tax	**18,708**	19,156
Withholding tax	**653**	1,457
Defence contribution	**2**	101
Deferred tax (Note 23)	**(4,798)**	7,120
	14,565	27,834

10. INCOME TAX EXPENSE (Continued)

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

	2008	2007
	US$'000	US$'000
Profit before tax	**111,941**	120,574
Tax calculated at the applicable tax rates	**20,985**	25,510
Tax effect of expenses not deductible for tax purposes	**1,153**	228
Tax effect of allowances and income not subject to tax	**(3,469)**	1,259
Tax effect of utilisation of previously unrecognised tax losses	**(596)**	—
Tax effect of tax losses for which no deferred tax asset was recognised	**12**	568
Defence contribution	**2**	101
Tax effect of revaluation of deferred tax liabilities at current tax rates	**(3,522)**	—
Derecognition of deferred tax asset previously recognised	**—**	168
Tax charge	**14,565**	27,834

The weighted average applicable tax rate was 18.8% in 2008 (2007: 21.1%). The change in the weighted average tax rate is mainly due to the fact that the proportion of profit before tax contributed to the Group's results by the Estonian subsidiaries, who have zero corporation tax rate, has increased in 2008 compared with 2007.

The Company is 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%.

During 2007 and 2008 the Russian subsidiaries (Note 1) were subject to a tax rate of 24%. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities has been recognised in these financial statements.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5% on gross dividends declared; such tax is withheld at source by the respective subsidiary and is paid to the Russian tax authorities at the same time when the payment of dividend is effected.

For subsidiaries in Estonia the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of $21/79$ (until 31 December 2007: $22/78$) of net dividend paid. Therefore, the applicable tax rate for Estonian subsidiaries is zero per cent.

For the subsidiary in Ukraine the annual profit is taxed at a tax rate 25%.

11. NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

	2008	2007
	US$'000	US$'000
Net finance (costs)/income (Note 9)	**(48,220)**	26,693
Other gains—net (Note 7)	**(529)**	1,200
	(48,749)	27,893

12. PROPERTY, PLANT AND EQUIPMENT

	Rolling stock	Land and buildings	Motor vehicles	Assets under construction	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2007						
Cost	674,191	1,421	2,556	4,414	2,648	685,230
Accumulated depreciation	(54,761)	(18)	(573)	—	(550)	(55,902)
Net book amount	619,430	1,403	1,983	4,414	2,098	629,328
Year ended 31 December 2007						
Opening net book amount	619,430	1,403	1,983	4,414	2,098	629,328
Additions	138,507	1,140	192	19,560	552	159,951
Disposals	(11,859)	—	(130)	—	(19)	(12,008)
Disposed through disposals of subsidiaries (Note 26)	—	—	(214)	(24,654)	(241)	(25,109)
Depreciation charge	(37,588)	(61)	(552)	—	(444)	(38,645)
Exchange difference	54,783	244	124	680	177	56,008
Closing net book amount	763,273	2,726	1,403	—	2,123	769,525
At 31 December 2007						
Cost	854,261	2,805	2,440	—	3,025	862,531
Accumulated depreciation	(90,987)	(79)	(1,037)	—	(903)	(93,006)
Net book amount	763,274	2,726	1,403	—	2,122	769,525
Year ended 31 December 2008						
Opening net book amount	763,273	2,726	1,403	—	2,122	769,524
Additions	143,920	304	379	—	497	145,100
Disposals	(5,004)	—	(155)	—	(85)	(5,244)
Depreciation charge	(44,661)	(94)	(479)	—	(473)	(45,707)
Exchange difference	(121,165)	(122)	(184)	—	(287)	(121,758)
Closing net book amount	736,363	2,814	964	—	1,774	741,915
At 31 December 2008						
Cost	871,353	2,987	2,276	—	3,064	879,680
Accumulated depreciation	(134,990)	(173)	(1,312)	—	(1,290)	(137,765)
Net book amount	736,363	2,814	964	—	1,774	741,915

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

	2008	2007
	US$'000	US$'000
Net book amount	**5,244**	12,008
Profit on sale of property, plant and equipment (Note 6)	**2,596**	1,675
Consideration from sale of property, plant and equipment	**7,840**	13,683

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2008	2007
	US$'000	US$'000
Cash consideration:		
—Received within year	**2,202**	13,633
—Received after year end	**6**	50
Consideration for the disposal of property, plant and equipment via reduction of prepayment made by the buyer	**5,632**	—
	7,840	13,683

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

	2008	2007
	US$'000	US$'000
Cost—capitalised finance leases	**522,664**	575,839
Accumulated depreciation	**(71,893)**	(60,171)
Exchange difference	**—**	(1,543)
	450,771	514,125

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

	2008	2007
	US$'000	US$'000
Rolling stock	**450,438**	513,685
Motor vehicles	**289**	440
Other	**44**	—
	450,771	514,125

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.

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):

	2008	2007
	US$'000	US$'000
Rolling stock	**123,696**	136,843

Depreciation expense of US$44,949 thousand in 2008 (2007: US$37,770 thousand) have been charged to "cost of sales" and US$758 thousand in 2008 (2007: US$875 thousand) have been charged to administrative expenses.

13. INVESTMENT IN ASSOCIATE

	2008	2007
	US$'000	US$'000
At beginning of year	**399**	991
Share of profit/(loss) after tax	**556**	(658)
Foreign exchange difference (loss)/gain	**(29)**	66
At end of year	**926**	399

The Group's share of the results of its associate, which is listed Riga Stock Exchange, and its share of the assets and liabilities are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenue	Profit/(Loss)	% Interest held
2008						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	30,044	16,591	38,604	2,199	25.27%
2007						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	33,893	21,954	30,608	(2,604)	25.27%

14. FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2008

	Loans and receivables	Total
	US$'000	US$'000
Financial assets as per balance sheet		
Trade and other receivables[1]	62,090	62,090
Cash and cash equivalents	111,602	111,602
Total	173,692	173,692

	Financial liabilities measured at amortised cost	Total
	US$'000	US$'000
Financial liabilities as per balance sheet		
Borrowings	445,628	445,628
Trade and other payables[2]	93,984	93,984
Total	539,612	539,612

31 December 2007

	Loans and receivables	Total
	US$'000	US$'000
Financial assets as per balance sheet		
Trade and other receivables[1]	76,019	76,019
Cash and cash equivalents	33,329	33,329
Total	109,348	109,348

14. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

	Financial liabilities measured at amortised cost	Total
	US$'000	US$'000
Financial liabilities as per balance sheet		
Borrowings	546,562	546,562
Trade and other payables[2]	43,285	43,285
Total	589,847	589,847

(1) Trade and other receivables do not include prepayments and taxes.

(2) Trade and other payables do not include accrued expenses, advances, statutory liabilities and payables to employees.

15. CREDIT QUALITY OF FINANCIAL ASSETS

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. Customers with longer history of working with the Group are regarded by management as having lower risk of default.

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:

	2008	2007
	US$'000	US$'000
Trade and other receivables		
Counterparties with external credit rating		
AA3	**2,982**	1,557
BB+	**—**	4
	2,982	1,561

	2008	2007
	US$'000	US$'000
Counterparties without external credit rating		
Group 1	**16,547**	54,847
Group 2	**1,748**	3,576
	18,295	58,423
	21,277	59,984

Group 1—Receivables from counterparties with more than one year of working history with the Group.

Group 2—Receivables from counterparties with less than one year of working history with the Group.

15. CREDIT QUALITY OF FINANCIAL ASSETS (Continued)

Cash at bank and short-term bank deposits[1]

Agency	Rating	2008	2007
		US$'000	US$'000
Fitch**	A−	179	15,101
Moody's*	AA	519	—
Moody's*	A2	—	1,905
Moody's*	Aa2	87,536	321
Moody's*	Aa3	2,620	—
Moody's*	Ba1	1,010	—
Moody's*	Ba3	7	—
Moody's*	Baa1	5,625	228
Moody's*	Baa2	45	15,114
Standard & Poor's***	BBB+	158	—
Standard & Poor's***	BBB	13,678	—
Other non-rated banks		223	598
		111,600	33,267

(1) The rest of the balance sheet item Cash and cash equivalents is cash on hand.

* International rating agency Moody's Investors Service.

** International rating agency Fitch Rating.

*** International rating agency Standard & Poor's.

16. TRADE AND OTHER RECEIVABLES

	2008	2007
	US$'000	US$'000
Trade receivables—third parties	**31,056**	21,090
Trade receivables—related parties (Note 29 (f))	**8,710**	7,880
Less: Provision for impairment of trade receivables	**(2,634)**	(2,900)
Trade receivables—net	**37,132**	26,070
Loans to third parties	**120**	364
Loans to related parties (Note 29 (g))	**—**	3,363
Other receivables	**15,710**	9,956
Other receivables—related parties (Note 29 (f))	**2,135**	7,795
Prepayments—related parties (Note 29 (f))	**1,932**	1,076
Prepayments—third parties	**41,688**	46,223
Finance lease receivables:		
Leases to third parties	**6,993**	9,705
Leases to related parties (Note 29 (f))	**—**	18,766
VAT recoverable	**24,087**	29,773
	129,797	153,091

16. TRADE AND OTHER RECEIVABLES (Continued)

	2008 US$'000	2007 US$'000
Less non-current portion:		
Prepayments[1]	**(21,092)**	(103)
Finance lease receivables:		
Leases to third parties	**(4,443)**	(7,048)
Leases to related parties	**—**	(9,589)
Other receivables—third parties	**(74)**	(107)
VAT Recoverable	**(2,414)**	(3,620)
Total non-current portion	**(28,023)**	(20,467)
Current portion	**101,774**	132,624

All non-current receivables are due until 2010.

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

	2008 US$'000	2007 US$'000
Financial assets:		
Trade receivables—third parties	**28,580**	18,190
Trade receivables—related parties	**8,552**	7,880
Loans to third parties	**120**	364
Loans to related parties	**—**	3,363
Other receivables	**15,710**	9,956
Other receivables—related parties	**2,135**	7,795
Finance lease receivables:		
Leases to third parties	**6,993**	9,555
Leases to related parties	**—**	18,586
Total financial assets	**62,090**	75,689

	2008 US$'000	2007 US$'000
Non-financial assets:		
Prepayments—related parties	**1,932**	1,076
Prepayments—third parties	**41,688**	46,223
VAT recoverable	**24,087**	29,773
Total non-financial assets	**67,707**	77,072
Total trade and other receivables	**129,797**	152,761

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

Receivables amounting to US$21,277 thousand (2007: US$59,984 thousand) were fully performing.

Receivables of US$40,725 thousand (2007: US$15,929 thousand) as of 31 December 2008 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. Subsequent to the year end past due receivables amounting to US$31,869 thousand were collected (Note 31).

16. TRADE AND OTHER RECEIVABLES (Continued)

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

	2008	2007
	US$'000	US$'000
Less than 1 month	**20,025**	6,385
From 1 to 3 months	**18,605**	6,774
From 3 to 6 months	**1,467**	1,684
From 6 months to 1 year	**337**	1,086
Over one year	**291**	—
	40,725	15,929

Trade receivables amounting to US$2,634 thousand (2007: US$2,900 thousand) as of 31 December 2008, 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:

	2008	2007
	US$'000	US$'000
Currency:		
US dollar	**13,679**	23,704
Russian Roubles	**111,903**	125,832
Euro	**4,140**	2,964
Other	**75**	591
	129,797	153,091

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

	2008	2007
	US$'000	US$'000
At 1 January	**2,900**	689
Provision for receivables impairment (Note 6)	**1,449**	2,092
Bad debt written off	**(2,226)**	(20)
Translation reserve	**511**	139
At 31 December	**2,634**	2,900

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.

16. TRADE AND OTHER RECEIVABLES (Continued)

The finance lease receivables are scheduled as follows:

	Less than 1 year	Between 1 to 5 years	Total
	US$'000	US$'000	US$'000
At 31 December 2008			
Minimum lease receivable	3,321	4,773	**8,094**
Less: Unearned finance income	(771)	(330)	**(1,101)**
Present value of minimum lease receivables	2,550	4,443	**6,993**
At 31 December 2007			
Minimum lease receivable	15,136	18,504	**33,640**
Less: Unearned finance income	(3,302)	(1,867)	**(5,169)**
Present value of minimum lease receivables	11,834	16,637	**28,471**

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.

There are neither accumulated allowances for uncollectible minimum lease payments, nor contingent rent recognised as income.

The net investment in finance leases is analysed as follows:

	2008	2007
	US$'000	US$'000
Receivable within one year	**2,550**	11,834
Receivable later than one year and not later than 5 years	**4,443**	16,637
Total	**6,993**	28,471

Average effective interest rate implicit in finance lease agreements at 31 December 2008 is 15.1% (2007: 14.4%).

17. INVENTORIES

	2008	2007
	US$'000	US$'000
Raw materials and consumables	**660**	544

All inventories are stated at cost.

18. CASH AND CASH EQUIVALENTS

	2008	2007
	US$'000	US$'000
Cash at bank and in hand	**94,283**	17,993
Short term bank deposits	**17,319**	15,336
	111,602	33,329

The effective interest rate on short-term deposits was 4.02% (2007: 3.38%) in 2008 and these deposits have a maturity of 1 to 12 days (2007: 1 to 10 days).

18. CASH AND CASH EQUIVALENTS (Continued)

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

	2008	2007
	US$'000	US$'000
Cash and cash equivalents	**111,602**	33,329
Bank overdrafts (Note 22)	**(212)**	(2,305)
	111,390	31,024

The effective interest rate on bank overdrafts in 2008 was 10% (2007: 7%).

19. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital	Share premium	Total
		US$'000	US$'000	US$'000
At 1 January 2007/31 December 2007/1 January 2008	10,000,000	10,000	61,560	71,560
Change of nominal value	90,000,000	—	—	—
Issue of shares	16,959,064	1,696	223,012	224,708
Incremental costs directly attributable to the issue of new shares	—	—	(5,427)	(5,427)
At 31 December 2008	116,959,064	11,696	279,145	290,841

The total authorised number of ordinary shares is 116,959,064 shares (2007: 10,000,000 shares) with a par value of US$0.10 per share (2007: US$1.00 per share). All issued shares are fully paid.

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares in the Company to the public.

The expenses directly attributable to the new shares issued amounting to US$5,427 thousand were capitalised against share premium.

20. DIVIDENDS

On 4 March 2008, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2008 of US$0.89 per share amounting to a total of US$8,900,000. The dividend was paid in the period from 31 March 2008 to 30 April 2008.

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 was paid in 2007. The balance was paid during the period from January to March 2008.

21. DEFERRED GAINS

	2008 US$'000	2007 US$'000
Current	**920**	1,799
Non-current	**508**	1,507
	1,428	3,306

Deferred gains represent gains deferred from sale and finance leaseback transactions entered by the Group for refinancing the purchase of railway tracks.

22. BORROWINGS

	2008 US$'000	2007 US$'000
Current		
Bank overdrafts (Note 18)	**212**	2,305
Bank borrowings	**51,804**	101,207
Loans from third parties	**319**	545
Loans from related parties (Note 29 (h))	**2,817**	5,554
Finance lease liabilities	**69,158**	66,840
	124,310	176,451
Non-current		
Bank borrowings	**98,928**	77,064
Loans from third parties	**2,618**	5,743
Loan from related parties (Note 29 (h))	**15,562**	73,367
Finance lease liabilities	**204,210**	213,937
	321,318	370,111
Total borrowings	**445,628**	546,562
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**72,102**	77,134
Between 2 and 5 years	**45,006**	79,040
	117,108	156,174
Finance lease liabilities—minimum lease payments		
Not later than 1 year	**104,443**	95,451
Later than 1 year and not later than 5 years	**216,351**	249,655
Later than 5 years	**11,625**	19,761
Future finance charges of finance leases	**(59,051)**	(84,090)
Present value of finance lease liabilities	**273,368**	280,777
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**80,544**	66,840
Later than 1 year and not later than 5 years	**181,783**	196,525
Later than 5 years	**11,041**	17,412
	273,368	280,777

Bank borrowings

Bank borrowings mature until 2013 and bear average interest of 11.08% (2007: 8.93%).

22. BORROWINGS (Continued)

There were no defaults or breaches of loan terms during the year ended 31 December 2008.

Year ended 31 December 2008

The current and non-current bank borrowings amounting to US$48,971 thousand and US$96,126 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$5,635 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$20,433 thousand as at 31 December 2008 which as of 31 December 2007 was secured by pledge of the 26% of charter capital (participation interest) of OOO Sevtekhnotrans.

With effect from 15 April 2008 the pledge agreement in favour of International Finance Corporation for the pledge of 26% of charter capital of OOO Sevtekhnotrans has been terminated. Effectively from 15 April 2008, no shares of subsidiaries of the Company are pledged as collateral. The pledge agreement was replaced by a share retention agreement whereby the parent company is obliged to retain at least 26% of the share capital of the Company free and clean of any lien and additionally the Company to maintain 100% of the share capital of OOO Sevtekhnotrans free and clear of any lien.

In accordance with the terms of the loan facility with Cargill Financial Services International, Inc., one of the Company's subsidiaries must observe certain ratios, which are calculated on the quarterly basis. As at 30 September 2008 due to substantial devaluation of Russian Rouble against US Dollar, the subsidiary failed to comply with certain ratios and has applied to the lender for waiver of this temporary noncompliance. Appropriate waiver was received in December 2008. In anticipation of a similar breach as at 31 December 2008 the subsidiary submitted an early request for waiver of potential noncompliance with ratios calculated based on annual results, utilising the 30 day remedy period specified in loan agreement, when noncompliance might be cured or waived by the borrower. Appropriate waiver has been received in February 2009. Consequently, no event of default occurred as at the balance sheet date.

The bank and financial institutions loans of a total amount of US$145,097 thousand are secured by property, plant and equipment at the carrying net book value of US$123,696 thousand (Note 12).

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

Furthermore, borrowings amounting to US$86,771 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$49,494 thousand are guaranteed by related parties (Note 29 (i)).

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 bank borrowings amounting to US$89,465 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 OOO Sevtekhnotrans. 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).

22. BORROWINGS (Continued)

Furthermore, property, plant and equipment of a carrying net book value of US$14,520 thousand (Note 12) were pledged as collateral under non-current loan agreement between OAO "Swedbank" and a related party (Note 29 (i)).

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

Furthermore, borrowings amounting to US$56,184 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$137,013 thousand are guaranteed by related parties (Note 29 (i)).

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

	2008	2007
	US$'000	US$'000
6 months or less	**310,736**	282,085
6 to 12 months	**47,706**	79,822
1 to 5 years	**87,186**	184,655
Over 5 years	**—**	—
	445,628	546,562

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

	Carrying amount		Fair value	
	2008	2007	2008	2007
	US$'000	US$'000	US$'000	US$'000
Bank borrowings	**98,928**	77,064	**98,928**	77,064
Loans from third parties	**2,618**	5,743	**2,709**	5,976
Loans from related parties	**15,562**	73,367	**17,245**	74,816
Finance lease liabilities	**204,210**	213,937	**198,848**	205,265
	321,318	370,111	**317,730**	363,121

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime[(1)] rates.

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

	2008	2007
	US$'000	US$'000
US Dollar	**387,277**	413,234
Euro	**26**	274
Russian Rouble	**57,712**	129,690
Estonian Kroons	**613**	3,364
	445,628	546,562

(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.

22. BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

	2008 US$'000	2007 US$'000
Floating rate:		
Expiring within one year	**24,929**	19,674
Expiring beyond one year	**—**	10,000
Fixed rate:		
Expiring within one year	**3,063**	30,554
	27,992	60,228

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

	2008	2007
Bank overdrafts	10.00%	7.00%
Bank borrowings	11.08%	8.93%
Loans from third parties	8.80%	12.00%
Loans from related parties	8.61%	9.91%
Finance lease liabilities	10.22%	11.80%

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:

	2008 US$'000	2007 US$'000
Deferred tax liabilities:		
—Deferred tax liability to be recovered after more than 12 months	**16,040**	26,725
—Deferred tax liability to be recovered within 12 months	**(477)**	(3,357)
Deferred tax liabilities (net)	**15,563**	23,368

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

	2008 US$'000	2007 US$'000
Beginning of year	**23,368**	14,917
Exchange differences	**(3,007)**	1,331
Income statement charge (Note 10)	**(4,798)**	7,120
End of year	**15,563**	23,368

23. DEFERRED INCOME TAX (Continued)

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

Deferred tax liabilities	Property, plant and equipment	Lease liability	Tax losses	Trade and other payables	Other assets	Other liabilities	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	50,836	(51,160)	—	(639)	(1,341)	17,221	14,917
Charged/(credited) to:							
Income statement (Note 10)	9,664	1,246	—	(1,569)	(2,247)	26	7,120
Translation differences	4,048	(3,669)	—	(111)	(190)	1,253	1,331
At 31 December 2007/1 January 2008	64,548	(53,583)	—	(2,319)	(3,778)	18,500	23,368
Charged/(credited) to:							
Income statement (Note 10)	(2,134)	6,035	(638)	1,576	(10,770)	1,133	(4,798)
Translation differences	(10,772)	7,891	98	244	19,186	(19,654)	(3,007)
At 31 December 2007	51,642	(39,657)	(540)	(499)	4,638	(21)	15,563

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

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

The Group did not recognize deferred income tax assets of USS$12 thousand in 2008 (2007: US$568 thousand) in respect of cumulative tax losses amounting to US$48 thousand (2007: US$5,683 thousand) as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

24. TRADE AND OTHER PAYABLES

	2008	2007
	US$'000	US$'000
Current		
Trade payables to third parties	**13,855**	20,572
Trade payables to related parties (Note 29 (f))	**1,650**	9,851
Other payables to related parties (Note 29 (f))	**51,932**	152
Other payables to third parties	**2,558**	1,009
Accrued expenses	**2,647**	9,185
Advances from customers(1)	**7,731**	39,199
Advances from related parties (Note 29 (f))(1)	**5,463**	11,212
Dividends payable (Note 29 (f))	**—**	11,452
	85,836	102,632
Non-current		
Other payables to related parties (Note 29 (f))	**24,129**	—
Other payables to third parties	**—**	427
	24,129	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.

	2008	2007
	US$'000	US$'000
Profit attributable to equity holders of the company	**90,934**	86,364
Weighted average number of ordinary shares in issue (thousand)	**111,074**	100,000
Basic and diluted earnings per share (expressed in US$ per share)	**0.82**	0.86

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share (Note 19). For the purposes of the calculation of earnings per share in each of the years above, the number of shares was increased using a conversion of 10:1.

26. BUSINESS COMBINATIONS

Year ended 31 December 2007

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

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

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

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

26. BUSINESS COMBINATIONS (Continued)

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 of were as follows:

	Carrying amount
	US$'000
Property, plant and equipment	25,109
Trade and other receivables	7,879
Inventories	805
Cash and cash equivalents	3,681
Borrowings	(35,032)
Trade and other payables	(1,690)
Current tax liabilities	(23)
Minority interest disposed of	(325)
Carrying amount of net assets disposed of	404

27. CONTINGENCIES

Operating environment

The Group and its subsidiaries operate mainly in the Russian Federation and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. There has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies.

The commodities market was also impacted by the latest events on the financial markets. A number of measures have been undertaken to support the Russian financial markets.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks 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.

Estonia represents a well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

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.

27. CONTINGENCIES (Continued)

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Finally, 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.

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and our assessment of the impairment of non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in their impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Tax legislation in Russia

Russian tax and customs 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 authorities.

The Russian tax authorities may be taking a 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. The Supreme Arbitration Court issued guidance to lower courts on reviewing 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.

27. CONTINGENCIES (Continued)

Russian transfer pricing legislation 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, 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 the transfer pricing rules 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 entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits 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 the 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 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 entity.

Based on the results of tax inspection for 2004 and preliminary results of tax inspections for 2006 and 2007 of OJSC New Forwarding Company (Company's subsidiary) tax authorities' could claim additional VAT in the amount of US$5,227 thousand and US$19,662 thousand respectively. This claim is based on the tax authorities interpretation of legislation and suggests that the company's activities related to export transactions do not qualify as zero rated for VAT purposes. No similar claim has been raised in the course of tax inspection for 2005 which was completed earlier. The subsidiary has received a positive decision from Court in respect of 2004 tax claim. Based on results of the first hearing, management believes that it will be able to defend its position and currently is in the process of discussing this matter with the tax authorities. No provision for this matter has been recorded in these financial statements. Total sales to which the company applies 0% VAT for 2008 which is still open for tax inspection amount to US$116,447 thousand. Currently there is no indication that similar claims will be raised by tax authorities in respect of this period. The company's management believes that its interpretation of the relevant legislation is appropriate and the company's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2007 and 2008 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 as of 31 December 2008 (Note 22).

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.

27. CONTINGENCIES (Continued)

Environmental matters

The enforcement of environmental regulation in the countries in which the Group operates 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 year ended 31 December 2008, the Group was involved as a claimant in a number of court proceedings.

AS Eesti Raudtee (Estonian railway) has an outstanding claim against AS Spacecom (Company's subsidiary) regarding unpaid invoices for the railway infrastructure access fee for the period from 31 May 2004 to 31 May 2005 in the total amount of EEK 119,497 thousand (US$10,760 thousand) and a late payment interest of EEK 122,368 thousand (US$11,019). The whole amount of the expenses claimed by AS Eesti Raudtee has already been accounted for in the books of AS Spacecom and the consolidated financial statements. AS Spacecom has a counterclaim against AS Eesti Raudtee regarding the compensation for damage caused by abuse of dominant position through unfair pricing. This counterclaim is to set-off the claim by AS Eesti Raudtee above. Both cases are pending in court. The management believes that the outcome of the litigation will be favourable to the Company.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2008 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:

	2008	2007
	US$'000	US$'000
Property, plant and equipment	**10,760**	64,549

(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 and non-cancellable operating lease agreements. The lease terms are between two months to two years. The lease expenditure charged 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:

	2008	2007
	US$'000	US$'000
Not later than 1 year	**17,500**	62,984
Later than 1 year not later than 5 years	**11,400**	48,762
	28,900	111,746

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

28. COMMITMENTS (Continued)

(c) Operating lease commitments—Group as lessor

	2008	2007
	US$'000	US$'000
Not later than 1 year	**55,086**	52,136
Later than 1 year not later than 5 years	**18,699**	11,426
	73,785	63,562

The Group leases out rolling stock and locomotives under cancellable and non-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$nil for the year ended 31 December 2008 (2007: US$nil).

29 RELATED PARTY TRANSACTIONS

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 19.55% (including the holding of GDRs of the Company) of the Company's shares. The remaining 30.35% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Group is Leverret Holding Limited.

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

	2008	2007
	US$'000	US$'000
Sales of services:		
Associate	**58**	3
Other related parties	**91,783**	156,020
	91,841	156,023

Transactions with "other related parties" amounting to US$28,295 thousand were carried with entities under common control (2007: US$123,879 thousand) and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

(b) Purchases of goods and services

	2008	2007
	US$'000	US$'000
Purchases of services:		
Associate	**6**	147
Other related parties	**33,468**	57,288
	33,474	57,435

Transactions with "other related parties" amounting to US$10,116 thousand were carried with entities under common control (2007: US$9,176 thousand) and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

29 RELATED PARTY TRANSACTIONS (Continued)

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

	2008	2007
	US$'000	US$'000
Additions:		
Other related parties	**10,446**	11,280
Disposals:		
Other related parties	**123**	39

Additions from "other related parties" amounting to US$3,885 thousand were obtained from entities under common control (2007: US$8,860 thousand) and the remaining additions from "other related parties" were obtained from entities under common significant influence.

All disposal transactions were carried out with "entities under common control".

(d) Interest income and expenses

	2008	2007
	US$'000	US$'000
Interest income (Note 9):		
Loans to:		
Other related parties	**9**	40
Finance leases:		
Other related parties	**86**	1,523
	95	1,563
Interest expense (Note 9):		
Entity with significant influence over the Group	**—**	(4)
The parent	**(5,186)**	(8,098)
Other related parties	**—**	(292)
	(5,186)	(8,394)

Interest income on loans to "other related parties" was received from entities under common control. Interest income on finance leases was received from entities under common significant influence.

(e) Directors and key management compensation

	2008	2007
	US$'000	US$'000
Directors' fees	**185**	—
Emoluments in their executive capacity	**120**	—
Key management salaries and other short term employee benefits	**4,700**	8,049
	5,005	8,049

The above include bonuses amounting to US$2,010 thousand for the year ended 31 December 2008 (2007: US$5,487 thousand).

29 RELATED PARTY TRANSACTIONS (Continued)

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

	2008	2007
	US$'000	US$'000
Trade receivable from related parties (Note 16):		
Other related parties	**8,710**	7,880
	8,710	7,880
Other receivables from related parties (Note 16):		
Other related parties	**2,132**	7,792
Associate	**3**	3
	2,135	7,795
Prepayments to related parties (Note 16):		
Other related parties	**1,932**	1,076
Finance lease receivables (Note 16):		
Current:		
Other related parties	**—**	9,177
Non-current:		
Other related parties	**—**	9,589
	—	18,766
Trade payables to related parties (Note 24):		
Associate	**—**	94
Other related parties	**1,650**	9,757
	1,650	9,851
Other payables to related parties (Note 24):		
Current:		
The parent	**51,894**	—
Key management personnel	**8**	—
Other related party	**30**	152
	51,932	152
Non-current:		
The parent	**24,129**	—
	76,061	152
Dividends payable	**—**	11,452
Advances from related parties (Note 24):		
Other related parties	**5,463**	11,212

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

29 RELATED PARTY TRANSACTIONS (Continued)

(g) Loans to related parties

	2008	2007
	US$'000	US$'000
Other related parties (Note 16):		
Beginning of year	**3,363**	846
Loans advanced during year	**—**	3,184
Loans repayments received	**(3,128)**	(830)
Interest charged	**9**	218
Interest received	**(185)**	(80)
Foreign exchange loss	**(59)**	25
End of year	**—**	3,363

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

The loan that was repaid in January 2008 carried interest at 12.5%.

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

(h) Loans from related parties

	2008	2007
	US$'000	US$'000
The parent:		
Beginning of year	**78,726**	101,875
Loans advanced during the year	**7,000**	15,079
Loans repaid during the year	**(63,943)**	(31,786)
Interest charged	**5,233**	7,904
Interest repaid	**(5,488)**	(4,654)
Foreign exchange (loss)/gain	**(3,149)**	(1,336)
Balances of the parent with parties no longer part of the Group	**—**	(8,356)
End of year	**18,379**	78,726

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

The balance at the year end carries an average interest of 10.43% and is payable on June 2012.

	2008	2007
	US$'000	US$'000
Entity with significant influence over the Group:		
Beginning of year	**—**	—
Loans advanced during the year	**—**	3,218
Loans repaid during the year	**—**	—
Interest charged	**—**	4
Interest repaid	**—**	—
Balances of the entity with significant influence over the Group with parties no longer part of the Group	**—**	(3,222)
End of year	**—**	—

29 RELATED PARTY TRANSACTIONS (Continued)

(h) Loans from related parties (Continued)

The loans from the entity with significant influence over the Group was payable on 31 December 2009 and carried interest at 12.5%.

	2008	2007
	US$'000	US$'000
Other related parties:		
Beginning of year	**195**	9,600
Loans advanced during the year	**—**	4,880
Loans repaid during the year	**—**	(10,409)
Interest charged	**—**	732
Interest repaid	**(195)**	(5)
Balances of the parent with parties no longer part of the Group	**—**	(4,603)
End of year	**—**	195

The loans were repaid in 2007 and carried interest at 12% and 12.5%.

The above loan from "other related parties" arise from transactions with entities under common control.

	2008	2007
	US$'000	US$'000
Total loans:		
Beginning of year	**78,921**	111,475
Loans advanced during the year	**7,000**	23,177
Loans repaid during the year	**(63,943)**	(42,195)
Interest charged	**5,233**	8,640
Interest repaid	**(5,683)**	(4,659)
Foreign exchange loss	**(3,149)**	(1,336)
Balances of the parent with parties no longer part of the Group	**—**	(16,181)
End of year	**18,379**	78,921
Current	**2,817**	5,554
Non-current	**15,562**	73,367
End of year	**18,379**	78,921

(i) Other transactions with related parties

Year ended 31 December 2008:

- In December 2008 the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$ 64,000,000 and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$ 15,000,000 (Note 30). The total consideration and interest accrued shall be paid in instalments until November 2010 according to the following schedule:

Term	US$'000
On or before 10 January 2009	30,000
On or before 1 May 2009	10,000
On or before 1 November 2009	13,000
On or before 1 May 2010	13,000
On or before 1 November 2010	13,000
Total consideration	**79,000**

29 RELATED PARTY TRANSACTIONS (Continued)

(i) Other transactions with related parties (Continued)

- As at 31 December 2008, 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	50,389
The parent	36,382
	86,771
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	25,896
The parent and other related parties	5,361
The parent	16,198
Other related parties	2,039
	49,494

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

Year ended 31 December 2007:

- In December 2007, the Group disposed of 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 30).
- 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):

	2007
	US$'000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	30,470
The parent	25,714
	56,184
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	47,356
The parent and other related parties	59,081
The parent	20,510
Other related parties	10,066
	137,013

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

29 RELATED PARTY TRANSACTIONS (Continued)

(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:

	2008	2007
	US$'000	US$'000
Not later than 1 year	**12,984**	20,721
Later than 1 year and not later than 5 years	**11,205**	26,424
	24,189	47,145

(k) Operating lease commitments—Group as lessor

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

	2008	2007
	US$'000	US$'000
Not later than one year	**11,949**	13,954

30. COMMON CONTROL TRANSACTION

Year ended 31 December 2008

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000 thousand and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000 thousand (Note 29(i)). Both companies are engaged in operating lease of rolling stock and AS Spacecom is also engaged in railway freight forwarding.

In accordance with the accounting policies of the Group, the liability for the consideration payable for the acquisition of AS Spacecom was recognised at the fair value of US$61,660 and AS Intopex Trans at the fair value of US$14,363 by discounting future payments to be made using the weighted average cost of capital.

The acquisition of 65% of AS Intopex Trans and 61% of AS Spacecom has been accounted for as a common control transaction using the predecessor basis (Note 2). The carrying value of their net assets as of 1 October 2004 and 14 November 2006 respectively, were used to account for the common control transaction reserve, since these are the dates common control has been established.

(a) AS Spacecom

On acquisition of AS Spacecom 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 ventures applied at the date of the formation of the joint venture, as this transaction was accounted as a formation of joint-venture.

The acquired business contributed revenues of US$40,679 thousand and net profit of US$12,609 thousand in 2008, revenues of US$51,562 thousand and net profit of US$10,641 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

30. COMMON CONTROL TRANSACTION (Continued)

(a) AS Spacecom (Continued)

The carrying amounts of assets and liabilities of AS Spacecom were as follows:

	1 October 2004	1 January 2007	31 December 2007	31 March 2008*	31 December 2008
	US$'000	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	4,846	158	1,905	306	2,620
Property, plant and equipment	109,920	132,741	138,335	137,730	122,822
Investments in associates	1,199	991	399	1,075	926
Other non-current assets	2,045	—	—		—
Trade and other receivables	7,134	15,781	9,013	15,894	8,378
Trade and other payables	(4,710)	(16,672)	(22,190)	(25,785)	(12,827)
Borrowings	(101,857)	(95,994)	(75,788)	(71,628)	(60,557)
Deferred gains	(8,422)	(4,552)	(3,046)	(2,556)	(1,324)
Current income tax liabilities	(115)	(344)	—		—
less Minority interest in net assets acquired	(4,920)	(15,733)	(23,828)	(49,532)	(23,415)
Carrying value of net assets acquired	5,120	16,376	24,800	5,504	36,623

* The assets and liabilities of AS Spacecom as of 31 March 2008, when an additional 10% shareholding was acquired by the parent entity from the minority shareholders of AS Spacecom, which was subsequently transferred to the Company as part of the common control transaction.

(b) AS Intopex Trans

On acquisition of AS Intopex Trans by Transportation Investments Holding Limited on 14 November 2006, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the purchase method of accounting.

The acquired business contributed revenues of US$7,850 thousand and net profit of US$2,365 thousand in 2008 and revenues of US$4.146 thousand and net profit of US$4,016 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of AS Intopex Trans were as follows:

	14 November 2006	1 January 2007	31 December 2007	31 December 2008
	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	133	52	321	519
Property, plant and equipment	14,949	22,344	28,379	26,535
Trade and other receivables	176	1,667	2,040	1,895
Trade and other payables	(2,424)	(391)	(2,547)	(792)
Borrowings	(8,383)	(18,682)	(617)	(617)
Deferred tax liabilities	(617)	(617)	(19,968)	(19,228)
Current income tax liabilities		(1)	—	—
less Minority interest in net assets acquired	(1,342)	(1,530)	(2,663)	(2,909)
Carrying value of net assets acquired	2,492	2,842	4,945	5,403

Year ended 31 December 2007

In May 2007 the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company (Note 29(i)). 28.75% of share capital of Sevtekhnotrans OOO was acquired for a total consideration of US$40,250 thousand. The remaining share capital (71.25%) with

30. COMMON CONTROL TRANSACTION (Continued)

(b) AS Intopex Trans (Continued)

value of US$99,750 thousand was transferred at no consideration as capital contribution. The acquisition of Sevtekhnotrans OOO has been accounted as a common control transaction using the predecessor basis. 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 carrying amounts of assets and liabilities of Sevtekhnotrans OOO were as follows:

	1 October 2004	31 December 2004	31 December 2005	31 December 2006
	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	34,313	35,522	13,036	6,182
Property, plant and equipment	212,711	225,301	250,200	278,940
Investments in joint ventures	32	32		—
Inventories	381	278	2,886	255
Trade and other receivables	46,039	96,633	80,247	73,749
Trade and other payables	(11,594)	(6,825)	(10,484)	(3,207)
Borrowings	(234,189)	(285,174)	(260,543)	(234,842)
Deferred gains	(1,101)	(1,159)	(752)	(422)
Deferred tax liabilities	(2,212)	(2,328)	(3,657)	(11,459)
Current income tax liabilities		(913)	(855)	(802)
Carrying value of net assets acquired	44,380	61,367	70,078	108,394

31. EVENTS AFTER THE BALANCE SHEET DATE

Devaluation of the Russian Rouble

As a result of global volatility in financial and commodity markets, amongst other factors, there has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies. As of 10 April 2009 the Russian Rouble has depreciated against the US Dollar from 29.3804 to 33.5334 Russian Roubles (official exchange rate of the Central Bank of Russia) (14% devaluation). The impact of a reasonable possible change in the Russian Rouble to US Dollar exchange rate of 33% on the Group's post-tax profit for the year with all other variables remaining unchanged is disclosed in Note 3. Management is closely monitoring and evaluating the impact of the changes in foreign exchange rates. Management cannot currently estimate the effect of the changes in foreign exchange rates on the Group's presentation currency.

Other events

The Group settled following obligations (in each case no early settlement charge was imposed or discount provided):

- US$3,172 thousand as early repayment of the principal and accrued interest under finance lease agreements with OOO "UniCredit Leasing" and OOO "BSGV-Leasing";

31. EVENTS AFTER THE BALANCE SHEET DATE (Continued)

- US$30,881 thousand as early repayment of the principal and accrued interest under long-term loan agreement with Cargill Financial Services International, Inc.;
- US$3,586 thousand under loan agreement with International Finance Corporation;
- US$11,062 thousand under loan agreement with ZAO UniCredit Bank.

The Group received the following borrowings:

- RUB1,000 million (US$34,036 thousand) under the credit line agreement denominated in Russian rubles with OAO "Sberbank" with maturity in January 2011;
- RUB88 million (US$2,995 thousand) under the credit line agreement denominated in Russian rubles with ZAO "Raiffeisenbank";
- RUB35 million (US$1,191 thousand) under revolving credit line denominated in Russian rubles with ZAO "Raiffeisenbank";
- RUB200 million (US$6,807 thousand) of RUB350 million (US$11,913 thousand) contracted by the Group under a short-term loan agreement denominated in Russian rubles with ZAO UniCredit Bank, secured by a pledge of rolling stock with the total pledge value of US$16,692 thousand.

In March 2009 the Group's subsidiary filed an appeal for the decision of tax inspection based on the results of tax inspection for 2006 and 2007, where tax authorities' claimed additional VAT in the amount of US$19,662 thousand (Note 27).

On 5 February 2009 the Board of Directors of the Company entered into additional agreements to the Share Purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle the instalment ahead of schedule and the Parent entity agreed to offer a discount on the total purchase price should such early settlement be made by the Company.

The Company has settled the instalment which was due no later than 1 May 2009 on 11 February 2009 and as a result received a discount from the Parent entity on the total purchase price of AS Spacecom and AS Intopex Trans of US$195 thousand and US$22 thousand respectively.

The Group received the total of US$31,869 thousand as settlements of accounts receivable that were classified as past due as of 31 December 2008.

The Group has received 50 gondola cars and 14 platforms for a total amount of US$5,027 thousand, which were contracted for and included in prepayments for property, plant and equipment as at 31 December 2008.

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

Independent Auditors' Report on pages 10 [F-41] to 11 [F-42].

OOO BaltTransServis

Condensed Interim financial information (unaudited)
30 June 2009

CONTENTS

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

Report on Review of Condensed Interim Financial Information

To the Participants and the Board of Directors of OOO BaltTransServis

Introduction

We have reviewed the accompanying Condensed Interim Balance Sheet of OOO BaltTransServis (hereinafter the Company) as of 30 June 2009 and the related Condensed Interim Statement of Comprehensive Income, Condensed Interim Statement of Changes in Net Assets Attributable to Participants and Condensed Interim Statement of Cash Flows for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, 'Interim financial reporting'. Our responsibility is to express a conclusion on this Condensed Interim Financial Information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim financial reporting'.

s/ZAO PricewaterhouseCoopers Audit

27 November 2009
Moscow, Russian Federation

OOO BaltTransServis

CONDENSED INTERIM BALANCE SHEET

(in thousands of Russian roubles, unless otherwise stated)

	Note	As at 30 June 2009	As at 31 December 2008
ASSETS			
Current assets			
Cash and cash equivalents		276,455	749,915
Accounts receivable		261,665	113,551
Accounts receivable and prepayments—related parties	13	53,848	81,681
Prepayments		313,666	425,344
Value added taxes receivable		368,893	337,715
Current income tax prepayment		597	16,052
Inventories		123,457	150,024
Other receivables		9,054	12,229
Total current assets		**1,407,635**	**1,886,511**
Non-current assets			
Property, plant and equipment	8	4,890,527	5,070,292
Total non-current assets		**4,890,527**	**5,070,292**
TOTAL ASSETS		**6,298,162**	**6,956,803**
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses		103,767	68,566
Advances from customers		38,650	466,630
Accounts payable—related parties	13	15,392	6,141
Current income tax liabilities		103,503	2,307
Short-term borrowings	9	611,467	1,042,913
Other liabilities		54,681	62,399
Total current liabilities		**927,460**	**1,648,956**
Non-current liabilities excluding net assets, attributable to participants			
Long-term borrowings	9	282,518	487,780
Other non-current liabilities	13	19,306	64,239
Deferred tax liability		9,955	6,750
Total non-current liabilities excluding net assets, attributable to participants		**311,779**	**558,769**
Total liabilities excluding net assets, attributable to participants		**1,239,239**	**2,207,725**
Net assets, attributable to participants			
Charter capital		119,168	119,168
Cumulative surplus of net assets		4,939,755	4,629,910
Total net assets, attributable to participants		**5,058,923**	**4,749,078**
TOTAL LIABILITIES		**6,298,162**	**6,956,803**

Approved for issue and signed by the Management on 27 November 2009

s/Prokofyev V.N.	s/Chofu S.I.
Prokofyev V.N. General Director	Chofu S.I. Chief Accountant

The accompanying notes on pages F-111 to F-120 are integral part of this condensed interim financial information.

OOO BaltTransServis

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(in thousands of Russian roubles, unless otherwise stated)

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
Revenue	5	11,439,171	10,110,130
Cost of sales	6	(9,763,661)	(8,907,547)
Gross profit		**1,675,510**	**1,202,583**
Selling, general and administrative expenses	7	(121,882)	(108,995)
Amortisation of the issued guarantee	13	57,129	10,308
Other income		10,704	7,392
Other expenses		(29,871)	(22,193)
Operating profit		**1,591,590**	**1,089,095**
Interest expense—borrowings		(32,928)	(53,192)
Distribution to participants	11	(867,000)	(750,000)
Finance income		2,945	9,480
Foreign exchange (loss)/gain on non-operating activities		(90,077)	69,923
Profit before income tax		**604,530**	**365,306**
Income tax expense	10	(294,685)	(275,012)
Change in surplus of net assets attributable to participants		**309,845**	**90,294**

The accompanying notes on pages F-111 to F-120 are integral part of this condensed interim financial information.

OOO BaltTransServis

CONDENSED INTERIM STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

(in thousands of Russian roubles, unless otherwise stated)

	Charter capital	Cumulative change in surplus of net assets	Total net assets attributable to participants
Balance at 1 January 2008	119,168	4,441,387	4,560,555
Change in surplus of net assets attributable to participants	—	90,294	90,294
Balance at 30 June 2008	**119,168**	**4,531,681**	**4,650,849**
Balance at 1 January2009	119,168	4,629,910	4,749,078
Change in surplus of net assets attributable to participants	—	309,845	309,845
Balance at 30 June 2009	**119,168**	**4,939,755**	**5,058,923**

The accompanying notes on pages F-111 to F-120 are integral part of this condensed interim financial information.

OOO BaltTransServis

CONDENSED INTERIM STATEMENT OF CASH FLOWS

(in thousands of Russian roubles, unless otherwise stated)

	Note	Six months ended 30 June 2009	Six months ended 30 June 2008
Cash flows from operating activities			
Profit before income tax		604,530	365,306
Adjustments for:			
Depreciation	8	184,747	181,766
Amortisation of the issued guarantee	13	(57,129)	(10,308)
Loss on disposal of property, plant and equipment		232	3
Distribution to participants	11	867,000	750,000
Finance income		(2,945)	(9,480)
Interest expense—borrowings		32,928	53,192
Foreign exchange losses/(gains) on non-operating activities		90,077	(69,923)
		1,719,440	**1,260,556**
Changes in working capital:			
Inventories		26,567	(12,205)
Accounts receivable, prepayments, value added tax receivable and other receivables		(36,606)	(217,738)
Accounts payable and accrued expenses, advances from customers, accounts payable—related parties and other liabilities		(379,051)	(165,952)
Cash generated from operations		**1,330,350**	**864,661**
Interest paid		(34,914)	(56,579)
Income tax paid		(175,541)	(278,934)
Net cash from operating activities		**1,119,895**	**529,148**
Cash flows from investing activities			
Purchases of property, plant and equipment		(6,115)	(13,770)
Proceeds from sale of property, plant and equipment		901	976
Interest received		2,945	9,480
Net cash used in investing activities		**(2,269)**	**(3,314)**
Cash flows from financing activities			
Proceeds from borrowings		149,166	461,759
Repayments of borrowings		(915,498)	(279,206)
Distribution to participants paid	11	(867,000)	(750,000)
Net cash used in financing activities		**(1,633,332)**	**(567,447)**
Net decrease in cash and cash equivalents		(515,706)	(41,613)
Effect of exchange rate changes on cash and cash equivalents		42,246	(4,166)
Cash and cash equivalents at beginning of period		749,915	634,411
Cash and cash equivalents at end of period		**276,455**	**588,632**

The accompanying notes on pages F-111 to F-120 are integral part of this condensed interim financial information.

1. GENERAL INFORMATION

OOO BaltTransServis (the "Company") is a limited liability company incorporated in the Russian Federation on 14 October 1999. The Company's registered address is at Avenue Metallistov, 115, St. Petersburg, Russian Federation. The Company's immediate parent at 30 June 2009 and 31 December 2008 is Transportation Investments Holding Limited, a company registered in Cyprus. Transportation Investments Holding Limited owns 90% interest of the Company. The Company is ultimately controlled by Leverret Holding Ltd, a limited liability company registered in Cyprus.

Operations

The Company's primary activity is to provide railway transportation services. The Company uses own and leased railway wagons and locomotives in order to perform transportation services for its clients. It also uses its own rolling stock as well as rolling stock leased under short term operating lease agreements on an as-needed basis. The Company's main customers for transportation services are major Russian oil companies. The Company's main supplier is OAO Russian Railways.

2. BASIS OF PREPARATION

This condensed interim financial information for the six months ended 30 June 2009 has been prepared in accordance with International Financial Reporting Standard applicable to Interim Financial Reporting (International Accounting Standard 34 "Interim Financial Reporting"). The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standards.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in this interim financial information.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Payroll related taxes and contributions which are assessed on an annual basis are recognised in interim periods using an estimated annual effective payroll tax or contribution rate.

The following new International Financial Reporting Standards (IFRS) are mandatory for the first time for the financial year beginning 1 January 2009.

- IAS 1 (Revised), "Presentation of financial statements". The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which also includes all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income.

  The Company elected to present singe statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements.

- IAS 23 (Revised) "Borrowing costs". 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 has been removed. This Standard does not have any impact on the Company's financial information, as the Company 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.

3. ACCOUNTING POLICIES (Continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Company:

- IFRS 8 'Operating Segments';
- IFRS 2 (amendment), 'Share-based payment';
- IFRIC 13, 'Customer loyalty programmes';
- IFRIC 15, 'Agreements for the construction of real estate';
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009, but do not significantly affect the Company's interim financial information.

- IAS 32 (amendment), 'Financial instruments: Presentation';
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to 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. Management is assessing the impact of the new requirements regarding acquisition accounting. The Company in not required to prepare consolidated financial statements, and does not have any joint ventures.

  The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) to all business combinations from 1 January 2010.
- IFRIC 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Company, as it has not made any non-cash distributions.
- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Company, as it has not received any assets from customers.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Except as described below, the critical accounting estimates and judgments applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in this interim financial information.

Net assets attributable to participants

The liability for the redemption right held by the Company's equity participants is classified as "at fair value through profit or loss" under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and whether participants will withdraw from the Company. The Company's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 2 to

(all amounts are presented in thousands of Russian roubles, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

the Financial Statements for the year ended 31 December 2008. The Company's net assets determined in accordance with the Russian Accounting Regulations are RR 5,144,524 thousand at 30 June 2009 (31 December 2008: RR 4,867,188 thousand). This amount would have been payable if all participants had exercised their redemption rights at the balance sheet date.

Fair value of guarantee issued

Management estimated fair value of the free of charge guarantee issued by the Company in 2007 applying a rate of 2%, representing a rate that according to management estimate, a third party would charge to issue a guarantee on similar terms. If the rate used in the calculation were 150 basis points higher or 100 basis points lower, assuming that all other variables are unchanged, the carrying value of the guarantee at 30 June 2009 would increase by RR 15,963 thousand (31 December 2008—increase by RR 48,786 thousand) or decrease by RR 10,642 thousand accordingly (31 December 2008—decrease by RR 32,511 thousand).

Tax legislation: Russian tax, currency and customs legislation is subject to varying interpretations (Note 12).

5. REVENUE

	Six months ended 30 June 2009	Six months ended 30 June 2008
Transportation services rendered	11,284,008	9,945,133
Rental income	138,328	164,902
Other	16,835	95
Total revenue	**11,439,171**	**10,110,130**

6. COST OF SALES

	Six months ended 30 June 2009	Six months ended 30 June 2008
OAO "Russian Railways" infrastructure tariff	7,687,365	7,180,738
Transportation services provided by other carriers	509,499	285,157
Operating lease costs (locomotives and tankers)	395,014	304,495
Fuel and spare parts	262,229	337,067
Rolling stock repair and maintenance costs	433,718	354,370
Depreciation	173,133	178,096
Engagement of locomotive crews	149,212	134,525
Taxes other than income tax	55,748	57,867
Staff costs	61,785	42,120
Communication costs	19,561	15,314
Insurance	3,198	3,346
Other expenses	13,199	14,452
Total cost of sales	**9,763,661**	**8,907,547**

(all amounts are presented in thousands of Russian roubles, unless otherwise stated)

7. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June 2009	Six months ended 30 June 2008
Staff costs	56,178	51,992
Information, consulting and other professional services	14,387	11,767
Depreciation	11,614	3,670
Operating lease expense for property, plant, and equipment	9,096	8,292
Business trip and representation expenses	7,373	8,647
Company vehicle maintenance	5,205	5,375
Communication costs	4,504	4,512
Advertising and marketing expenses	2,841	6,773
Other expenses	10,684	7,967
Total selling, general and administrative expenses	**121,882**	**108,995**

8. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment
Six months ended 30 June 2008	
Opening net book amount as at 1 January 2008	**5,324,494**
Additions	13,770
Disposals	(978)
Depreciation (notes 6,7)	(181,766)
Closing net book amount as at 30 June 2008	**5,155,520**
Six months ended 30 June 2009	
Opening net book amount as at 1 January 2009	**5,070,292**
Additions	6,115
Disposals	(1,133)
Depreciation (notes 6,7)	(184,747)
Closing net book amount as at 30 June 2009	**4,890,527**

9. BORROWINGS

The Company has the following undrawn borrowing facilities as of 30 June 2009:

	30 June 2009	31 December 2008
Fixed rate:		
—expiring within one year (denominated in Russian roubles)	130,000	130,000
—expiring beyond one year (denominated in Russian roubles)	843,400	—
Floating rate:		
—expiring beyond one year (denominated in US dollars or Russian roubles)	300,000	—
Total undrawn borrowing facilities	**1,273,400**	**130,000**

10. INCOME TAX

The income tax expense is recognised based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues.

The estimated average annual income tax rate used for the six months ended 30 June 2009 is 20% (the estimated tax rate for the six months ended 30 June 2008 was 24%). Distribution to participants is not deductible for income tax purposes. The decrease of the average annual income tax rate was caused by reduction of corporate income tax rate from 24% to 20% that was enacted in the Russian Federation on 24 November 2008 and came into effect from 1 January 2009.

11. DISTRIBUTION TO PARTICIPANTS

During the six months ended 30 June 2009 the Company declared and paid distribution to participants of RR 867,000 thousand, including withholding tax on distribution to participants of RR 43,350 thousand (six months ended 30 June 2008—RR 750,000 thousand, including withholding tax on distribution to participants of RR 37,500 thousand).

12. CONTINGENCIES

Operating environment

The Russian Federation displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. There has been increased volatility in currency markets and the Russian rouble has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of Russian Federation increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008 and to RR 31.29 at 30 June 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 69.35 at 30 June 2009.

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.

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

12. CONTINGENCIES (Continued)

Impact on liquidity

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Volatility in the currency markets and instability of some currencies relative to others, including recent devaluation of the Russian rouble to US dollar and Euro may affect the financial results of the Company. Currently most of the Company's borrowings are denominated in USD, most of its revenues and expenses are denominated in Russian roubles, this has led to the Company recognising foreign exchange loss for the six months ended 30 June 2009. The Company does not hedge this foreign exchange risk.

Impact on customers

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Management is unable to reliably determine the effects on the Company's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets.

Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

Legal proceedings

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims.

During the six months ended 30 June 2009, the Company was involved as a third party in a number of court proceedings between the tax authorities and certain Company's clients. The Company has charged 18% VAT for transporting cargos to seaport terminals located in the Russian Federation for further export from the terminals, that had not been placed under export regime prior to being delivered to the terminal. Tax authorities challenged the recoverability of such VAT by a number of the Company's customers on the grounds that the transportation should have been subject to 0% VAT. If the tax authorities are successful in claiming this approach, the Company's customers could be successful in claiming the Company to pay back amounts, equal to VAT previously charged on transportation services and potentially associated penalties the customers suffered. In this case the Company could claim to refund the relevant output VAT paid to the state budget.

The Company is involved as a third party in its customers' litigations with the tax authorities in respect of VAT in the amount of RR 148,618 thousand.

Subsequent to 30 June 2009 a claim was received from one of the Company's customers (Note 14).

Total amount of VAT starting from 1 January 2007 and up to 30 June 2009 (prior to this period the Company applied 0% VAT rate as was prescribed by relevant tax legislation valid at that time) charged by the Company for the similar type of transportation services is RR 1,895,882 thousand.

Based on its interpretation of tax legislation and analysis of court practice management believe that it is not probable that the Company will incur outflow of economic resources as a result of the existing and

12. CONTINGENCIES (Continued)

potential claims from its customers to pay back amounts, equal to VAT previously charged by the Company, therefore, no provision has been recorded in this condensed interim financial information.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 30 June 2009, which could have a material effect on the results of operations or financial position of the Company and which have not been accrued or disclosed in this financial information.

Compliance with covenants

The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company, including obligation to repay the borrowings before maturity date, and declaration of default.

In accordance with the terms of the loan facility with one of the lenders, the Company must observe certain ratios, which are calculated on a quarterly basis. As at 30 June 2009 the Company failed to comply with one ratio and has duly informed the lender of this noncompliance using the notification and remedy period specified in the loan agreement, when noncompliance might be cured or waived by the borrower. Under the loan agreement the loan may only become repayable on demand if noncompliance is not remediated within 30 days from the date of respective notification from the lender. The lender has notified the Company that it has no intention to demand an early repayment. Consequently, no event of default occurred as at the balance sheet date. The Company was in compliance with this covenant as at 30 September 2009. Earlier than contractually due, the Company repaid the loan on 25 November 2009 (Note 14).

Insurance policies

The Company holds insurance policies in relation to all vehicles (rolling stock and motor vehicles) and in respect of public third party liability. The Company 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 Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Tax legislation

Russian tax 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 Company may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for

12. CONTINGENCIES (Continued)

three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation 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 is contradictory.

Tax liabilities arising from related party transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could 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 position and/or the overall operations of the entity.

At 30 June 2009 management believes that its interpretation of the relevant legislation is appropriate and the Company's tax position will be sustained.

Guarantees

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following amounts (the guaranteed liability is denominated in US Dollars, the amounts below are presented in thousands of Russian roubles (Note 13)):

	30 June 2009	31 December 2008
Loan agreement with Sberbank RF	1,891,692	5,288,472

The maximum exposure to credit risk arising from guarantees issued is limited to the amounts guaranteed. The Company does not expect any cash outflow resulting from the guarantees provided.

13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of this financial information, parties are considered to be related if one party has the ability to control the other party, is under common control, or can 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.

(all amounts are presented in thousands of Russian roubles, unless otherwise stated)

13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

The following transactions were carried out with related parties:

(a) Sales of services

	30 June 2009	30 June 2008
Companies under common control	683,121	455,743

(b) Purchases of services

	30 June 2009	30 June 2008
Companies under common control	86,171	98,451

(c) Other expenses

	30 June 2009	30 June 2008
Companies under common control	16,000	13,500

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

	30 June 2009	31 December 2008
Trade receivables from related parties:		
Companies under common control	**53,054**	81,001
Other receivables and prepayments from/to related parties:		
Companies under common control	**794**	680
Trade payables to related parties:		
Companies under common control	**15,392**	6,141

(e) Guarantees issued

During the year ended 31 December 2007 the Company provided a guarantee to Sberbank RF for a long-term loan received by OOO Severstaltrans-Finance, a former related party, from Sberbank RF repayable in five equal annual installments. OOO Severstaltrans-Finance has used the proceeds from this loan to provide a loan to Leverret Holding Ltd. Guarantee was free of charge, was limited to RR 1,408,068 thousand per annum (USD 45,000 thousand) and was issued for a period of 5 years. At initial recognition, guarantee was recognised at estimated fair value of RR 106,944 thousand (current portion RR 22,092 thousand, non-current portion RR 84,852 thousand). Leverret Holding Ltd. issued a counter guarantee under which it is to reimburse to OOO "BaltTransServis" any payment that the Company could pay to Sberbank RF in case of default of OOO Severstaltrans-Finance. Included in other liabilities carrying value of the guarantee at 31 December 2008 was RR 86,331 thousand (current portion was RR 22,092 thousand, non-current portion RR 64,239 thousand).

During the six months period ended 30 June 2009 OOO Severstaltrans-Finance made a partial early repayment of the loan, as a result, the guaranteed amount effectively reduced to USD 20,085 thousand per annum. Reduction of the guaranteed amount decreased the carrying value of the guarantee liability as of 30 June 2009 to RR 29,200 thousand (current portion RR 9,895 thousand, non-current portion RR 19,305 thousand), and was recognized as amortisation of the issued guarantee in the statement of comprehensive income.

13. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(f) Key management compensation

Compensation to key management personnel for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Total compensation of key management personnel included in general and administrative expenses in the statement of comprehensive income for the six months ended 30 June 2009 amounted to RR 14,244 thousand (6 months ended 30 June 2008: RR 14,347 thousand). No compensation to Board of Directors was paid in the six months ended 30 June 2009 and 30 June 2008.

14. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In October 2009 the General Participants' meetings of the Company declared distribution to participants of RR 1,500,000 thousand (including withholding tax on distribution to participants of RR 75,000 thousand), RR 750,000 thousand out of which were repaid in October-November 2009 and RR 750,000 thousand management expects to repay before 20 December 2009.

In November 2009 the Company notified one of lenders about its intention to make an early repayment of the full amount of the long-term borrowing. The repayment has been made on 25 November 2009. The carrying amount of this US Dollar denominated borrowing as of 30 June 2009 was RR 443,755 thousand, including current portion of the borrowing of RR 221,887 thousand.

In November 2009 the Company's immediate parent was changed from Transportation Investments Holding Limited, a company registered in Cyprus, to Ingulana Holdings Limited, a company registered in Cyprus. Ingulana Holdings Limited is a wholly owned subsidiary of Transportation Investments Holding Limited.

In October 2009 the Company has received a claim from one of its customers which is involved in the tax litigation with the tax authorities on the matter described in Note 12 (legal proceedings). The amount of the claim is RR 224,468 thousand. This case was admitted by the Arbitration Court of Saint Petersburg and Leningradskaya oblast on 2 November 2009 for examination.

15. SEASONALITY

The operations of the Company are not subject to seasonal fluctuations.

OOO BaltTransServis

International Financial Reporting Standards
Financial Statements and Independent Auditor's Report
31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya nab. 52/5
115054 Moscow
Russian Federation
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001

INDEPENDENT AUDITOR'S REPORT

To the Participants and the Board of Directors of OOO BaltTransServis:

We have audited the accompanying financial statements of OOO BaltTransServis (hereinafter—the "Company") which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

s/ZAO PricewaterhouseCoopers Audit

27 April 2009
Moscow, Russian Federation

OOO BaltTransServis

BALANCE SHEET

AT 31 DECEMBER 2008

(in thousands of Russian roubles)

	Note	31 December 2008	31 December 2007
ASSETS			
Current assets			
Cash and cash equivalents	7	749,915	634,411
Accounts receivable	8	113,551	75,122
Accounts receivable and prepayments—related parties	6	81,681	115,725
Prepayments	9	425,344	243,260
Value added taxes receivable		337,715	309,640
Current income tax receivable		16,052	1,582
Inventories	10	150,024	121,557
Other receivables		12,229	18,958
Total current assets		**1,886,511**	**1,520,255**
Non-current assets			
Property, plant and equipment	11	5,070,292	5,324,494
Total non-current assets		**5,070,292**	**5,324,494**
TOTAL ASSETS		**6,956,803**	**6,844,749**
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses		68,566	49,738
Advances from customers		466,630	423,231
Accounts payable—related parties	6	6,141	6,175
Short-term borrowings	12	1,042,913	577,937
Other liabilities	13	64,706	94,596
Total current liabilities		**1,648,956**	**1,151,677**
Non-current liabilities excluding net assets, attributable to participants			
Long-term borrowings	12	487,780	1,032,014
Other non-current liabilities	6	64,239	84,852
Deferred tax liability	20	6,750	15,651
Total non-current liabilities excluding net assets, attributable to participants		**558,769**	**1,132,517**
Total liabilities excluding net assets, attributable to participants		**2,207,725**	**2,284,194**
Net assets, attributable to participants:			
Charter capital		119,168	119,168
Cumulative surplus of net assets		4,629,910	4,441,387
Total net assets, attributable to participants	14	**4,749,078**	**4,560,555**
TOTAL LIABILITIES		**6,956,803**	**6,844,749**

Approved for issue and signed by the Management on 27 April 2009

s/Prokofyev V.N.	s/Chofu S.I.
Prokofyev V.N. General Director	Chofu S.I. Chief Accountant

The accompanying notes on pages F-128 to F-153 are an integral part of these financial statements.

OOO BaltTransServis

STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Russian roubles)

	Note	2008	2007
Revenue	15	19,832,808	17,357,102
Cost of sales	16	(17,523,809)	(15,194,138)
Gross profit		**2,308,999**	**2,162,964**
Selling, general and administrative expenses	17	(239,362)	(250,249)
Other income	18	33,600	15,978
Other expenses	19	(78,058)	(161,321)
Operating profit		**2,025,179**	**1,767,372**
Interest expense—borrowings		(100,691)	(153,005)
Finance charge—leasing		—	(1,694)
Dividends to participants		(1,050,000)	(1,020,000)
Finance income		17,917	10,126
Foreign exchange (loss)/gain on non-operating activities		(292,572)	123,051
Profit before income tax		**599,833**	**725,850**
Income tax expense	20	(411,310)	(438,826)
Change in surplus of net assets attributable to participants		**188,523**	**287,024**

The accompanying notes on pages F-128 to F-153 are an integral part of these financial statements.

OOO BaltTransServis

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Russian roubles)

	Note	2008	2007
Cash flows from operating activities			
Profit before income tax		599,833	725,850
Adjustments for:			
Depreciation	11	370,157	358,417
Gain on disposal of property, plant and equipment		(1,104)	(3,991)
Interest expenses, net		82,774	144,573
Dividends	14	1,050,000	1,020,000
Foreign exchange loss/(gain) on non-operating activities		292,572	(123,051)
Operating cash flows before working capital changes		**2,394,232**	**2,121,798**
Changes in working capital balances			
Accounts receivable and prepayments		(179,740)	(94,173)
Accounts payable and accrued expenses		18,794	(12,202)
Inventory		(28,467)	(19,023)
Value added taxes receivable		(28,075)	215,752
Advances received		43,399	(127,755)
Other payables		(52,329)	122,273
Cash generated from operations		**2,167,814**	**2,206,670**
Interest paid		(104,054)	(169,799)
Income taxes paid		(432,855)	(420,759)
Net cash from operating activities		**1,630,905**	**1,616,112**
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,754)	(329,440)
Proceeds from sale of property, plant and equipment		3,608	4,541
Repayment of deposits with bank		—	356,399
Acquisition of a business	21	(102,705)	—
Interests received		17,917	10,126
Net cash (used)/received in investing activities		**(96,934)**	**41,626**
Cash flows from financing activities			
Proceeds from borrowings		531,271	1,190,220
Repayment of borrowings		(911,214)	(1,241,710)
Repayment of lease liability		—	(24,937)
Dividends paid		(1,050,000)	(1,020,000)
Net cash (used)/received in financing activities		**(1,429,943)**	**(1,096,427)**
Effect of exchange rate changes on cash and cash equivalents		11,476	(3,466)
Net increase in cash and cash equivalents		**115,504**	**557,845**
Cash and cash equivalents at the beginning of the period		**634,411**	**76,566**
Cash and cash equivalents at the end of the period	7	**749,915**	**634,411**

The accompanying notes on pages F-128 to F-153 are an integral part of these financial statements.

OOO BaltTransServis

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Russian roubles)

	Charter capital	Cumulative change in surplus of net assets	Total net assets attributable to participants
Balance at 1 January 2007	**119,168**	**4,154,363**	**4,273,531**
Change in surplus of net assets attributable to participants	—	287,024	287,024
Balance at 31 December 2007	**119,168**	**4,441,387**	**4,560,555**
Change in surplus of net assets attributable to participants	—	188,523	188,523
Balance at 31 December 2008	**119,168**	**4,629,910**	**4,749,078**

The accompanying notes on pages F-128 to F-153 are an integral part of these financial statements.

1. THE COMPANY AND ITS OPERATIONS

The Company

OOO "BaltTransServis" (the "Company") is a limited liability company incorporated in the Russian Federation on 14 October 1999. The Company's registered address is at Avenue Metallistov, 115, St. Petersburg, Russian Federation. The Company's participants at 31 December 2008 and 31 December 2007 are Transportation Investments Holding Limited, a company registered in Cyprus and Goodlife Investments Limited, a company registered in Cyprus with 90% and 10% shareholdings, respectively. The Company is ultimately controlled by Leverret Holding Ltd, a limited liability company registered in Cyprus. Prior to July 2007 the Company was ultimately jointly controlled by Rosea Invest Limited, a company registered in British Virgin Islands, and Leverret Holding Ltd.

Operations

The Company's primary activity is to provide railway transportation services. The Company uses leased and own railway wagons and locomotives in order to perform transportation services for its clients. It also uses its own rolling stock as well as rolling stock leased under short term operating lease agreements on an as-needed basis. The Company's main customers for transportation services are major Russian oil companies. The Company's main supplier is OAO Russian Railways.

At 31 December 2008 the Company employed 445 employees (31 December 2007: 202). Increase of the number of employees occurred mostly due to acquisition of wagon repair depot "Ivanovo" made in August 2008 (Note 21).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

The Company maintains its accounting records in Russian roubles ("RR") and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting adopted by the decree of Ministry of Finance of the Russian Federation dated 29 July 1998 No 34n. The financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

Accounting for the effect of inflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Classification of financial assets. Financial assets have the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

The Company only has financial assets that fall under category loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) financial liabilities at fair value through profit or loss and (b) other financial liabilities. Other financial liabilities are carried at amortised cost.

Initial recognition of financial instruments. All of the Company's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of the Company's financial instruments are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

Derecognition of financial assets. The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (b) the Company has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method net of provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Value added tax. 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. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Property, plant and equipment. Property, plant and equipment are stated at cost, restated to the equivalent purchasing power of the Russian rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

	Number of years
Buildings and constructions	10–20
Rolling stock	8–25
Office and other assets and equipment	5

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. 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.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the income statement unless it relates to transactions that are recognised, in the same or a different period, directly in net assets attributable to participants.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Company's uncertain tax positions are reassessed by management at every balance sheet date. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Net assets attributable to participants. The Company's equity participants have a right to request redemption of their interests in the Company in cash. The Company's obligation to redeem gives rise to a financial liability even though the redemption is conditional on the participant exercising the right. As a practical expedient, the Company measures the liability presented as "Net assets attributable to participants" at the IFRS carrying value of the Company's net assets that are or could become distributable to the participant.

Distributions to participants are presented as a finance cost in the income statement and are recognised when declared. Dividends are disclosed when they are declared after the balance sheet date but before the financial statements are authorised for issue.

Financial guarantees. Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the remaining unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Revenue recognition. Revenue from transportation and rent services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable.

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

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

Foreign currency transactions. The functional currency is the currency of the primary economic environment in which the Company operates. The Company's functional currency is the national currency of the Russian Federation, Russian roubles ("RR").

Monetary assets and liabilities are translated into the Company's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

translation of monetary assets and liabilities into the Company's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

At 31 December 2008 the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1=RR 29.38 (31 December 2007: USD 1=RR 24.55).

Business combinations. Subsidiaries are those companies and other entities in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Company (acquisition date) and are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment. Management estimates useful lives of rolling stock from 8 to 25 years based on its type, physical condition and industry standards. The actual useful lives may differ from these estimates depending on the intensity of the use of the rolling stock items. Thus, if the useful lives were from 8 to 20 years the depreciation charge for 2008 would increase by approximately 4.6% or RR 16.3 million (2007: 5.5% or RR 19.5 million).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations (Note 22).

Net assets attributable to participants. The liability for the redemption right held by the Company's equity participants is classified as "at fair value through profit or loss" under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and whether participants will withdraw from the Company. The Company's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 2. The Company's net assets determined in accordance with the Russian Accounting Regulations are RR 4,867,188 thousand at 31 December 2008 (31 December 2007: RR 4,661,509 thousand). This amount would have been payable if all participants had exercised their redemption rights at the balance sheet date.

Fair value of guarantee issued. Management estimated fair value of the free of charge guarantee issued by the Company in 2007 applying a rate of 2%, representing a rate that according to management estimate, a third party would charge to issue a guarantee on similar terms. If the rate used in the calculation were

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

150 basis points higher or 100 basis points lower, assuming that all other variables are unchanged, initial fair value of the guarantee would increase by RR 60,960 thousand or decrease by RR 40,639 thousand accordingly, profit after tax for the year ended 31 December 2008 would increase by RR 12,192 thousand or decrease by RR 8,128 thousand accordingly, carrying value of the guarantee at 31 December 2008 would increase by RR 48,768 thousand or decrease by RR 32,511 thousand accordingly.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Certain new interpretations became effective for the Company from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007).*** The revised standard will not have an impact on the Company.
- ***IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).*** The revised standard will not have an impact on the Company since the standard is not relevant to the Company's operations.
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).*** The revised standard will not have an impact on the Company since the standard is not relevant to the Company's operations.
- ***Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition.*** The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Company has not elected to make any of the optional reclassifications during the period.

5. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2009 or later periods and which the Company has not early adopted:

- ***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 Company 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.

5. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

- ***IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).*** The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company's accounting policy prior to the amendment to the standard was to capitalise borrowing costs relating to such assets, and therefore the amendment does not impact the Company's financial statements.

- ***Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009).*** The amendment requires classification as equity of some financial instruments that meet definition of a financial liability. The Company is currently considering potential impact of the amendment on its financial statements.

- ***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 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 purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. 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 any 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 revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Company will apply the Standard from 1 January 2010.

- ***IFRS 5 (Amendment), Non-current assets held for sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption) (effective for annual periods beginning on or after 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008.*** The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Company will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

- ***IAS 36 (Amendment), Impairment of assets (effective from 1 January 2009).*** The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply this amendment from 1 January 2009.

The following standards and interpretations are currently not relevant to the Group's operations:

- **IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).**

- **Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009).**

5. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

- **IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008).**
- **IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009).**
- **IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008).**
- **IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009).**
- **Amendments to IFRS 2 "Share-based payment" (effective for annual periods beginning on or after 1 January 2009).**
- **Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted).**
- **IAS 28 (Amendment), "Investments in associates" (and consequential amendments to IAS 32, "Financial Instruments: Presentation" and IFRS 7, "Financial instruments: Disclosures") (effective from 1 January 2009).**
- **IAS 38 (Amendment), "Intangible assets" (effective from 1 January 2009).**
- **IAS 19 (Amendment), "Employee benefits" (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.**
- **IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).**
- **IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).**

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on its financial statements.

Improving Disclosures about Financial Instruments—Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required

5. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Company is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives—Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the "at fair value through profit or loss" category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Company's financial statements.

6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can 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 Company's immediate parent and ultimate controlling party are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding is detailed below.

Related party	Relationship
Transportation Investments Holding Limited	Participant of the Company with controlling interest
OOO "Sevtekhnotrans"	Company controlled by Transportation Investments Holding Ltd.
OAO "New Forwarding Company"	Company controlled by GlobalTrans Investment Limited, which is a subsidiary of Transportation Investments Holding Ltd.
Intopex Trans AS	Company controlled by Transportation Investments Holding Ltd.
Intergate AG	Company controlled by Leverret Holding Ltd.
OOO "Transoil"	Company under significant influence of members of key management personnel of Transportation Investments Holding Ltd.
Charity fund "DAR"	Company under significant influence of one of the beneficial owners of Transportation Investments Holding Ltd.

(all amounts are presented in thousands of Russian roubles)

6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

i Balances with related parties:

Balance sheet caption	Subject/transaction	Currency	31 December 2008	31 December 2007
Accounts receivable:				
Intergate AG	Receivables for transportation services	USD	35,820	93,411
OAO "New Forwarding Company"	Receivables for rent of rolling stock	RR	35,209	10,530
OOO "Transoil"	Receivables for rent of rolling stock	RR	9,972	9,770
			81,001	**113,711**
Prepayments:				
OOO "Transoil"	Prepayment for rent of rolling stock	RR	—	848
Other	Other prepayments	RR	155	155
			155	**1,003**
Other receivables:				
OOO "Sevtekhnotrans"	Other receivables	RR	525	525
Other	Other receivables	RR	—	486
			525	**1,011**
			81,681	**115,725**
Accounts payable and advances received:				
OOO "Sevtekhnotrans"	Payables for rent of locomotives	RR	3,678	3,851
OAO "New Forwarding Company"	Payables for rent of rolling stock	RR	2,463	2,324
			6,141	**6,175**

ii Transactions with related parties:

Statement of income caption	Subject/transaction	Currency	2008	2007
Revenue:				
Intergate AG	Transportation services	USD	426,507	1,170,114
OAO "New Forwarding Company"	Operating lease of rolling stock	RR	135,051	99,136
OOO "Transoil"	Rent of rolling stock	RR	192,742	89,280
			754,300	**1,358,530**
Cost of sales:				
OOO "Sevtekhnotrans"	Operating lease of locomotives	RR	144,452	143,251
OAO "New Forwarding Company"	Operating rent of rolling stock and repair of rolling stock	RR	48,124	8,746
Intopex Trans AS	Operating rent of rolling stock	USD	—	1,481
			192,576	**153,478**
Other Expenses:				
Charity fund "DAR"	Charity donations	RR	27,000	27,000
			27,000	**27,000**

iii Key management compensation:

Compensation to key management personnel for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Total compensation of key management personnel included in general and administrative expenses in the

(all amounts are presented in thousands of Russian roubles)

6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

statement of income for the year ended 31 December 2008 amounted to RR 29,125 thousand (2007: RR 64,317 thousand). No compensation to Board of Directors was paid in the years ended 31 December 2008 and 31 December 2007.

iv Guarantees issued and received:

As of 31 December 2007 the Company provided guarantees to a number of related parties, namely OOO "Sevtekhnotrans" and ZAO "Severstaltrans" on loan received from International Finance Corporation ("IFC") in the amount of RR 649,095 thousand (Note 22). In April 2008 the Company was released by IFC from acting as a guarantor for the loan.

During the year ended 31 December 2007 the Company provided a guarantee to Sberbank RF for a long-term loan received by OOO Severstaltrans-Finance, a former related party, from Sberbank RF repayable in five equal annual installments. OOO Severstaltrans-Finance has used the proceeds from this loan to provide a loan to Leverret Holding Ltd. Guarantee is free of charge, is limited to RR 1,322,100 thousand per annum (USD 45,000 thousand) and is issued for a period of 5 years. Guarantee was recognised at estimated fair value of RR 106,944 thousand (current portion RR 22,092 thousand (Note 13), non-current portion RR 84,852 thousand). Leverret Holding Ltd. issued a counter guarantee under which it is to reimburse to OOO "BaltTransServis" any payment that the Company could pay to Sberbank RF in case of default of OOO Severstaltrans-Finance. Carrying value of the guarantee at 31 December 2008 was RR 86,331 thousand (current portion RR 22,092 thousand (Note 13), non-current portion RR 64,239 thousand). Amortisation of the guarantee in amount of RR 22,092 thousand is recorded within other income in the statement of income for the year ended 31 December 2008.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise rouble denominated cash on hand, balances with banks and short-term bank deposits:

	31 December 2008	31 December 2007
RR denominated cash on hand and balances with banks (interest rate: 0.5% p.a.; 2007: 0.5% p.a.)	225,451	6,613
USD denominated cash balances with banks (interest rate: 0.5% p.a.; 2007: 0.5% p.a.)	524,464	52,155
RR denominated short-term bank deposits (interest rate: 2007: 0.5-7.5% p.a.)	—	570,711
USD denominated short-term bank deposits (interest rate: 2007: 0.5% p.a.)	—	4,932
	749,915	**634,411**

Term deposits at 31 December 2007 are repayable on demand.

(all amounts are presented in thousands of Russian roubles)

8. ACCOUNTS RECEIVABLE

Trade accounts receivable at 31 December 2008 and 31 December 2007 are denominated in the following currencies:

	31 December 2008	31 December 2007
Accounts receivable denominated in RR	113,551	59,156
Accounts receivable denominated in USD	—	15,966
	113,551	**75,122**

No provision for impairment has been created at 31 December 2008 and 31 December 2007.

9. PREPAYMENTS

Prepayments were made to the following organisations:

	31 December 2008	31 December 2007
Prepayment for transportation services:		
Railway organisations, branches of OAO Russian Railways	338,494	130,044
Other prepayments	86,850	113,216
	425,344	**243,260**

In 2008 and 2007 the Company made prepayments for transportation services expected to be utilised within one month. The prepayments for tariff of OAO Russian Railways for transportation services at 31 December 2008 and 31 December 2007 are denominated in Russian roubles.

The other prepayments are denominated primary in Russian roubles.

10. INVENTORIES

	31 December 2008	31 December 2007
Fuel	52,171	70,642
Spare parts	92,878	50,574
Other	4,975	341
	150,024	**121,557**

(all amounts are presented in thousands of Russian roubles)

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation consist of the following:

	Rolling stock	Buildings and constructions	Other	Construction in progress	TOTAL
Cost					
At 1 January 2007	**6,107,844**	**—**	**46,072**	**—**	**6,153,916**
Additions	317,561	—	11,879	—	329,440
Disposals	—	—	(4,412)	—	(4,412)
At 31 December 2007	**6,425,405**	**—**	**53,539**	**—**	**6,478,944**
Acquisitions through business combinations	—	53,055	49,650	—	102,705
Additions	1,292	—	12,371	2,091	15,754
Disposals	(1,226)	—	(15,169)	—	(16,395)
At 31 December 2008	**6,425,471**	**53,055**	**100,391**	**2,091**	**6,581,008**
Accumulated depreciation					
At 1 January 2007	**(777,986)**	**—**	**(21,908)**	**—**	**(799,894)**
Depreciation charge	(349,621)	—	(8,796)	—	(358,417)
Disposals	—	—	3,861	—	3,861
At 31 December 2007	**(1,127,607)**	**—**	**(26,843)**	**—**	**(1,154,450)**
Depreciation charge	(355,988)	(1,562)	(12,607)	—	(370,157)
Disposals	279	—	13,612	—	13,891
At 31 December 2008	**(1,483,316)**	**(1,562)**	**(25,838)**	**—**	**(1,510,716)**
Carrying amount					
1 January 2007	**5,329,858**	**—**	**24,164**	**—**	**5,354,022**
31 December 2007	**5,297,798**	**—**	**26,696**	**—**	**5,324,494**
31 December 2008	**4,942,155**	**51,493**	**74,553**	**2,091**	**5,070,292**

At 31 December 2008 own rolling stock of the Company comprised 595 open wagons (31 December 2007: 595), 6,580 tankers (31 December 2007: 6,582) and 34 locomotives (31 December 2007: 34).

Pledged assets

At 31 December 2008 3,634 tankers of total 6,580 (31 December 2007: 4,154 of 6,582), 108 open wagons of total 595 (31 December 2007: 108 of total 595) and 9 locomotives of total 34 (31 December 2007: 13 of total 34) are pledged as collateral under loan facilities (Note 12). At 31 December 2008 carrying value of pledged tankers was RR 1,553,228 thousand of total own RR 3,619,773 thousand (31 December 2007: RR 2,059,126 thousand of total RR 3,834,878 thousand), carrying value of open wagons pledged was RR 32,807 thousand of total RR 182,117 thousand (31 December 2007: RR 35,238 thousand of total RR 195,951 thousand) and carrying value of locomotives RR 138,478 thousand of total RR 1,140,265 thousand (31 December 2007: RR 306,963 thousand of total RR 1,266,969 thousand).

Operating leases

The Company leases under operating lease terms rolling stock tankers and locomotives from related (Note 6) and third parties. All lease contracts are cancellable and are for period of 12 months with a

(all amounts are presented in thousands of Russian roubles)

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

possibility of renewal. All costs and risks associated with these leases for the duration of the terms rest with the lessor.

The Company leases out on operating lease terms rolling stock under operating lease terms to related (Note 6) and third parties. All lease contracts are cancellable and are for period of 12 months with a possibility of renewal. At 31 December 2008 the gross book value of the assets leased out under operating lease agreements was RR 999,751 thousand, accumulated depreciation was RR 228,955 thousand and net book value was RR 770,796 thousand (at 31 December 2007 the gross book value of the assets leased out under operating lease agreements was RR 1,014,771 thousand, accumulated depreciation was RR 186,040 thousand and net book value was RR 828,731 thousand).

12. SHORT-TERM AND LONG-TERM BORROWINGS

	31 December 2008	31 December 2007
US Dollar denominated short-term borrowings		
Short-term borrowings from financial institutions	596,723	—
Plus: current portion of long-term borrowings from financial institutions	446,190	577,937
Total short-term borrowings	**1,042,913**	**577,937**

	31 December 2008	31 December 2007
US Dollar denominated long-term loans		
Long-term borrowings from financial institutions	933,970	1,609,951
Less: current portion	(446,190)	(577,937)
Total long-term borrowings	**487,780**	**1,032,014**

In 2008 the USD denominated short-term loans carried an effective average interest rate of 5.8% (2007: 8%) and long-term loans carried an effective average interest rate 6% (2007: 9.25%). The interest rates are floating and depend on LIBOR.

Maturity of borrowings	31 December 2008	31 December 2007
within 1 year	1,042,913	577,937
between 1 and 2 years	385,872	625,694
between 2 and 5 years	101,908	406,320
Total borrowings	**1,530,693**	**1,609,951**

At 31 December 2008 long-term and short-term borrowings with the carrying amount of RR 1,530,693 thousand (31 December 2007: RR 1,609,951 thousand) are secured by pledge of rolling stock with carrying amount of RR 1,724,513 thousand (31 December 2007: RR 2,033,531 thousand) and the assignment of contracts with one customer up to RR 135,602 thousand (31 December 2007: up to RR 184,097 thousand).

The Company needs to comply with certain restrictive covenants such as maintaining certain turnover on the accounts with the lending financial institutions and maintaining certain financial ratios determined by the loan agreements with EBRD (current ratio, leverage ratio and debt service cover ratio), Commerzbank (Eurasija) ZAO (total bank loans to equity, interest expenses to earnings before interest, tax, depreciation and amortisation, net assets excluding intangibles). Covenants are monitored by the management and there were no cases of noncompliance with the covenants at 31 December 2008 and 31 December 2007.

Carrying values of the borrowings approximate their fair values at 31 December 2008 and 31 December 2007.

(all amounts are presented in thousands of Russian roubles)

13. OTHER LIABILITIES

	31 December 2008	31 December 2007
Payroll and related taxes	9,240	40,338
Property tax payable	27,960	29,582
Fair value of guarantee issued to Sevestaltrans-Finance (Note 6)	22,092	22,092
Other tax payable	5,232	2,377
Other payables	182	207
	64,706	**94,596**

14. NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

Charter capital

At 31 December 2008 and 31 December 2007 the Company's authorized and registered charter capital was RR 100,000 thousand (prior to effect of inflation of RR 19,168 thousand). It comprised two participatory shares (Note 1) with nominal values of RR 90,000 thousand and RR 10,000 thousand, having 90% and 10% voting and dividends rights and attached to each respectively at 90/10 ratio. All participatory shares have been issued and fully paid.

Distributions

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. In 2008, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 1,255,680 thousand (2007: RR 1,456,670 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totalled RR 4,867,188 thousand at 31 December 2008 (31 December 2007: RR 4,661,509 thousand). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

In 2008 the Company declared and paid dividends to participants of the Company in the amount of RR 1,050,000 thousand (2007: RR 1,020,000 thousand).

15. REVENUE

	2008	2007
Transportation services rendered	19,488,198	17,068,442
Rental income	337,761	288,660
Other	6,849	—
	19,832,808	**17,357,102**

(all amounts are presented in thousands of Russian roubles)

16. COST OF SALES

	2008	2007
OAO "Russian Railways" infrastructure tariff	13,654,734	12,690,933
Operating lease costs (locomotives and tankers)	642,397	500,042
Fuel and spare parts	677,542	421,070
Rolling stock repair and maintenance costs	736,966	632,385
Depreciation	357,550	349,621
Engagement of locomotive crews	271,910	264,180
Taxes other than on income	114,725	117,908
Transportation services provided by other carriers	905,925	97,322
Staff costs	104,845	78,582
Communication costs	31,120	25,464
Insurance	6,329	9,092
Other operating expenses	19,766	7,539
	17,523,809	**15,194,138**

The total depreciation expense incurred by the Company in 2008 was RR 370,157 thousand (2007: RR 358,417 thousand), of which RR 357,550 thousand was included in cost of sales (2007: RR 349,621 thousand) and RR 12,607 thousand in selling, general and administrative expenses (2007: RR 8,796 thousand). The total employee costs in 2008 were RR 215,162 thousand (2007: RR 214,472 thousand), of which RR 104,845 thousand was included in cost of sales (2007: RR 78,582 thousand) and RR 110,317 thousand in selling, general and administrative expenses (2007: RR 135,890 thousand).

17. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Staff costs	110,317	135,890
Information, consulting and other professional services	28,030	25,330
Business trip and representation expenses	18,080	16,644
Operating lease expense for property, plant and equipment	16,941	13,722
Advertising and marketing expenses	13,471	14,754
Depreciation	12,607	8,796
Company vehicle maintenance	12,047	14,343
Communication expenses	9,622	10,825
Other	18,247	9,945
	239,362	**250,249**

18. OTHER INCOME

Included in other income is RR 22,092 thousand amortisation charge of guarantee issued by the Company to OOO Severstaltrans-Finance (Note 6).

19. OTHER EXPENSES

Included in other expenses is RR 32,859 thousand charity donations (2007: RR 33,452 thousand charity donations and RR 106,944 thousand fair value of free of charge guarantee issued by the Company to OOO Severstaltrans-Finance (Note 6)).

(all amounts are presented in thousands of Russian roubles)

20. INCOME TAXES

	2008	2007
Current tax	420,211	469,069
Deferred tax	(8,901)	(30,243)
Income tax expense for the year	**411,310**	**438,826**

A reconciliation between the expected and the actual taxation charge is provided below.

	2008	2007
Profit before income tax	599,833	725,850
Theoretical tax charge at statutory rate of 24%	143,959	174,204
Tax effect of items which are not deductible or assessable for taxation purposes:		
Effect of dividends to participants not deductible for tax purposes	252,000	244,800
Other non-deductible expenses	16,701	19,822
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	(1,350)	—
Income tax expense for the year	**411,310**	**438,826**

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect with 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Non-deductible expenses are represented by charity expenses and other expenses.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2007: 24%).

	1 January 2008	Differences recognition and reversals	31 December 2008
Tax effects of taxable and deductible temporary differences:			
Property, plant and equipment	(50,047)	22,054	(27,993)
Fair value of guarantee issued to Severstaltrans-Finance (Note 6)	25,667	(8,401)	17,266
Other	8,729	(4,752)	3,977
Recognised deferred tax liability	**(15,651)**	**8,901**	**(6,750)**

(all amounts are presented in thousands of Russian roubles)

20. INCOME TAXES (Continued)

The movement in deferred tax assets and liabilities during 2007 was as follows:

	1 January 2007	Differences recognition and reversals	31 December 2007
Tax effects of taxable and deductible temporary differences:			
Property, plant and equipment	(47,054)	(2,993)	(50,047)
Lease liability	(1,960)	1,960	—
Fair value of guarantee issued to Severstaltrans-Finance (Note 6)	—	25,667	25,667
Other	3,120	5,609	8,729
Recognised deferred tax liability	**(45,894)**	**30,243**	**(15,651)**

21. BUSINESS COMBINATIONS

On 1 August 2008 the Company acquired wagon repair depot “Ivanovo” from OAO Russian Railways. This business combination did not represent acquisition of a legal entity. The depot provides wagon repair services.

The acquired business contributed revenue of RR 6,800 thousand and net profit of RR 112 thousand to the Company for the period from the date of acquisition to 31 December 2008. Had the acquisition occurred on 1 January 2008, the Company’s revenue for 2008 would have been RR 9,520 thousand, and net profit for 2008 would have been RR 157 thousand higher.

The purchase consideration comprises cash paid of RR 114,144 thousand (including input VAT of RR 11,439 thousand recoverable from budget). The consideration paid by the Company (net of VAT) equaled estimated fair values of the identifiable assets acquired, represented by Property Plant and Equipment (no liabilities either current or contingent were purchased).

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings. From time to time and in the normal course of business, claims against the Company are received. The management is of the opinion that no material losses will be incurred in respect of claims.

Tax legislation. Russian tax 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 Company may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation 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

(all amounts are presented in thousands of Russian roubles)

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

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. The arbitration court practice with this respect is contradictory.

Tax liabilities arising from related party transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could 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.

At 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and the Company's tax position will be sustained.

Guarantees. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligations:

	Currency	Note	31 December 2008	31 December 2007
Surety agreement for loan agreement with Sberbank RF	USD	6	5,288,472	5,522,895
Loan from International Finance Corporation (IFC) received by OOO "Sevtechnotrans"	USD	6	—	649,095
			5,288,472	**6,171,990**

Compliance with covenants. The Company is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Company, including obligation to repay the borrowings before maturity date, and declaration of default. Details of covenants are disclosed in Note 12. The Company's Management believes that the Company is in compliance with covenants at 31 December 2008 and 31 December 2007.

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

Operating environment of the Company. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the CBRF increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008.

International reserves of the Russian Federation decreased from USD 556 billion at 30 September 2008 to USD 438 billion at 26 December 2008 and to USD 384 billion at 31 March 2009.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price of Urals oil decreased from USD 91.15 at 29 September 2008 to USD 41.83 at 31 December 2008.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the financial position of the Company.

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.

Impact of the ongoing global financial and economic crisis. The Company's activity and operating performance has been affected by the global financial crisis, which, among other things, has resulted in a lower availability of capital markets and bilateral financing, increased instability of currency and commodity markets. The recession affecting many economically developed regions resulted in a substantial decrease in global trade. As a consequence of these and some other factors demand for the Company's services may decrease.

Impact on liquidity:

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Volatility in the currency markets and instability of some currencies relative to others, including recent devaluation of the Russian rouble to US dollar and Euro may affect the financial results of the Company. Currently most of the Company's borrowings are denominated in USD, whereas most of its revenues and expenses are and will be denominated in roubles. The Company does not hedge this foreign exchange risk.

Impact on customers:

Debtors of the Company may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Company's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances.

The Company's operations are exposed to various financial risks: market risk (including foreign exchange risk, cash flows and fair value interest rate risk), credit risk and liquidity risk. The general risk management policy of the Company is focused on overcoming the unpredictable nature of financial markets and mitigating potential unfavorable impact on its financial results.

(all amounts are presented in thousands of Russian roubles)

23. FINANCIAL RISK MANAGEMENT

The financial instruments by categories at 31 December 2008 and 31 December 2007 are presented in the table below:

	Note	Loans and receivables at 31 December 2008	Loans and receivables at 31 December 2007
Cash and cash equivalents	7	749,915	634,411
Accounts receivable	6, 8	195,077	189,844
		944,992	**824,255**

	Note	Financial liabilities measured at amortised cost at 31 December 2008	Financial liabilities at fair value through profit or loss at 31 December 2008	Financial liabilities measured at amortised cost at 31 December 2007	Financial liabilities at fair value through profit or loss at 31 December 2007
Short-term and long-term borrowings	12	1,530,693	—	1,609,951	—
Accounts payable and accrued expenses		68,566	—	49,738	—
Other liabilities	6	86,331	—	106,944	—
Accounts payable—related parties	6	6,141	—	6,175	—
Net assets attributable to participants	14	—	4,749,078	—	4,560,555
		1,691,731	**4,749,078**	**1,772,808**	**4,560,555**

(a) Market risk

The Company takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. There are no formal policies to mitigate this risk.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated—for example, changes in interest rate and changes in foreign currency rates.

(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 the Company. Currently the Company attracts borrowings denominated in US dollars, Company's revenue and expenses are mostly 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 favourable to the Company by reducing the cost of its US dollar denominated borrowings. However, the depreciation in value of the Russian rouble against the US dollar from September 2008 onwards leads to the Company realising a foreign exchange loss on its US dollar denominated borrowings. The Company 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 Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations. Any risks related to liabilities denominated in foreign currency are partially set off by assets and sales denominated in foreign currency. Management monitors all changes in the exchange rate and does not expect any material negative fluctuations in the medium-term.

(all amounts are presented in thousands of Russian roubles)

23. FINANCIAL RISK MANAGEMENT (Continued)

The carrying amounts of monetary assets and liabilities denominated in US dollars are as follows:

	31 December 2008	31 December 2007
Assets	560,284	166,464
Liabilities	(1,549,793)	(1,736,199)
Net balance sheet position	**(989,509)**	**(1,569,735)**

The above analysis includes only monetary assets and liabilities. Non-monetary assets are not considered to give rise to any material currency risk.

Had US dollar exchange rate strengthened/weakened by 30% against the Russian rouble and all other variables remained unchanged, the net profit of the Company for the year ended 31 December 2008 would have increased/decreased by RR 225,608 thousand. This is mainly due to foreign exchange gains and losses arising upon retranslation of cash and cash equivalents, receivables, and borrowings denominated in US dollars.

Had US dollar exchange rate strengthened/weakened by 5% against the Russian rouble and all other variables remained unchanged, the net profit of the Company for the year ended 31 December 2007 would have decreased/increased by RR 59,684 thousand. This is mainly due to foreign exchange gains and losses arising upon retranslation of cash equivalents, receivables, and borrowings denominated in US dollars.

Profit was more sensitive to fluctuations of the exchange rate of Russian rouble to US dollar for the year ended 31 December 2008 compared to 2007 due to devaluation of Russian rouble against the US dollar. This effect was partly offset by reduction of liabilities denominated in US Dollars.

The Company generally raises long term debt denominated in US dollars, however is planning to raise further borrowings denominated in Russian roubles only. The Company's borrowing policy is based on the forecast of changes in exchange rates and interest rates.

(ii) Cash flow and fair value interest rate risk

The Company's profit and cash flows are exposed to the risk of changes in the market interest rates due to borrowings (Note 12) with variable interest rate.

The Company's long-term loan agreements are entered for the purpose of financing purchase of property, plant and equipment and financing of working capital. When analyzing new investment projects and entering loan and lease agreements, various scenarios are developed taking into account the terms of refinancing and alternative sources of funding. On the basis of these scenarios, the Company calculates the impact on its profit and loss which could be produced by certain changes in interest rates and chooses the financing model which would allow to maximize the estimated value of future profits.

The Company obtains borrowings at current market interest rates and does not apply any hedging instruments for the purpose of interest rate risk management. Management monitors changes in the interest rates. Changes in interest rates are possible, but they are not expected to have a considerable impact on the Company's financial results.

Had interest rates on borrowings increased/decreased by 100 basis points, assuming that all other variables are unchanged, profit after taxes for the year ended 31 December 2008 would have decreased/increased by RR 13,136 thousand (31 December 2007: decreased/increased by RR 13,559 thousand).

(b) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises

(all amounts are presented in thousands of Russian roubles)

23. FINANCIAL RISK MANAGEMENT (Continued)

as a result of the Company's sales on credit terms and other transactions with counterparties giving rise to financial assets.

Financial assets, which potentially subject the Company to credit risk, consist principally of trade receivables, cash and cash equivalents and deposits with banks (Note 7). The Company is also exposed to credit risk in respect to guarantees issued (Notes 6, 22).

The Company's maximum exposure to credit risk by class of assets is as follows:

	Note	31 December 2008	31 December 2007
Accounts receivable	6, 8	195,077	189,844
Cash and cash equivalents	7	749,915	634,411
Total on-balance sheet exposure		**944,992**	**824,255**
Financial guarantees—amount of guaranteed loans	22	5,288,472	6,171,990
Total maximum exposure to credit risk		**6,233,464**	**6,996,245**

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. These policies enable the Company to reduce its credit risk significantly. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

The Company normally works with its customers on prepayment basis, sales on credit terms are possible only to the largest customers with good credit history. At 31 December 2008 96% of the Company's accounts receivable (including related parties) are represented by 7 debtors (31 December 2007: 94% by 7 debtors).

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. There are no formal policies to mitigate credit risk for off-balance sheet financial instruments.

Accounts receivables (Notes 6, 8) on a contract basis at the reporting date are presented in the table below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
At 31 December 2008				
Accounts receivable	113,544	7	—	**113,551**
Receivable from related parties	60,087	21,439	—	**81,526**
	173,631	**21,446**	**—**	**195,077**
At 31 December 2007				
Accounts receivable	70,330	4,792	—	**75,122**
Receivable from related parties	114,197	525	—	**114,722**
	184,527	**5,317**	**—**	**189,844**

Cash is placed in financial institutions, which, at the time of deposit, are considered to have a minimal risk of default. The general risk assessment is made on the basis of international credit ratings of the banks, or, if they are not available, on the basis of analysis of financial results of the banks, the rating of Russian banks in terms of size of their net assets and prior history.

(all amounts are presented in thousands of Russian roubles)

23. FINANCIAL RISK MANAGEMENT (Continued)

The following table shows balances with banks at 31 December 2008 and 31 December 2007 on cash and cash equivalents (Note 7):

Rating	31 December 2008	31 December 2007
"AAA"—"A"*	1,084	626,869
"BBB+"—"B−"*	748,779	7,494
Not rated	52	48
	749,915	**634,411**

* International rating agencies Moody's Investors Service, Standard&Poor's, Fitch Rating.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through available credit instruments. The Company has a successful history of lending and refinance and maintains an adequate level of flexibility with the availability of funding through an adequate amount of committed credit facilities. The presence of available credit facilities along with long-term loans and borrowings of the Company allows keeping the Company's credit portfolio and mitigating risks of unfavorable changes in the financial market environment.

Credit facilities at 31 December 2008 and 31 December 2007 are as follows:

	31 December 2008	31 December 2007
Unused amount of credit line, *including*	130,000	854,112
—*expiring within 1 year*	130,000	—
—*expiring in more than in 1 year*	—	854,112

The undrawn credit facility at 31 December 2008 may be received by the Company in RR (31 December 2007: RR and US dollars). The undrawn credit facility at 31 December 2008 is a bank overdraft.

At 31 December 2007 credit line facilities denominated in US dollars are secured by pledge of rolling stock with net carrying amount of RR 367,796 thousand.

Management controls the current liquidity on the basis of expected cash flows and expected revenues. In the long-term, liquidity risk is determined through the forecast of future cash flows upon execution of new loan agreements, as well as by applying budgeting procedures.

(all amounts are presented in thousands of Russian roubles)

23. FINANCIAL RISK MANAGEMENT (Continued)

The table below represents analysis of the Company's financial liabilities by maturity at 31 December 2008 and 31 December 2007. Amounts in the table are contractual non-discounted cash flows.

	Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	1–5 years	Total
At 31 December 2008					
Long-term and short-term bank borrowings	45,201	214,812	782,900	487,780	**1,530,693**
Accounts payable and accrued expenses	68,566	—	—	—	**68,566**
Accounts payable to related parties	6,141	—	—	—	**6,141**
Other liabilities	—	—	22,092	64,239	**86,331**
Aggregate potential future payments for financial liabilities excluding net assets attributable to participants	**119,908**	**214,812**	**804,992**	**552,019**	**1,691,731**
At 31 December 2007					
Long-term and short-term bank borrowings	1,210	15,717	561,010	1,032,014	**1,609,951**
Accounts payable and accrued expenses	49,738	—	—	—	**49,738**
Accounts payable to related parties	6,175	—	—	—	**6,175**
Other liabilities	—	—	22,092	84,852	**106,944**
Aggregate potential future payments for financial liabilities excluding net assets attributable to participants	**57,123**	**15,717**	**583,102**	**1,116,866**	**1,772,808**

The participants of the Company have a right to claim repayment of their share in the Company's net assets. The amount that should be payable could be determined based on the Company's net assets calculated based on statutory financial statements of the Company. Statutory net assets as at 31 December 2008 were RR 4,867,188 thousand (31 December 2007: RR 4,661,509 thousand). Should a participant claim its share it would become payable in six months after the end of calendar year when the claim was made. However, management does not anticipate that participants will exercise their right in the foreseeable future, therefore liability to participants is not included in the analysis.

24. MANAGEMENT OF CAPITAL RISK

The Company's main objective in capital management is maintaining the Company's ability to continue as a going concern while providing required return to the Company's participants, as well as maintaining the optimal capital structure and reduction of cost of capital. In order to define the capital, the Company applies the amount of net assets attributed to the Company's participants (Note 14).

The Company's capital at 31 December 2008 and 31 December 2007 amounts to RR 4,749,078 thousand and RR 4,560,555 thousand respectively. In 2008 and 2007, changes in capital took place as a result of the receipt by the Company of net profit and distributions to participants (Note 14).

External requirements to the capital are raised in relation to long-term loans provided by financial institutions (Note 12). The Company analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. Management believes that

(all amounts are presented in thousands of Russian roubles)

24. MANAGEMENT OF CAPITAL RISK (Continued)

the Company will be able to comply with its external requirements to the capital during the whole term of agreements.

In order to maintain or change its capital structure, the Company may vary the amount of dividends paid or sell assets to decrease its debt. Management believes that the current amount of capital is adequate to fund the Company's current level of activities and for its further development.

The Company also controls capital on the basis of debt-to-total capitalization ratio. Debt includes lease liabilities, liabilities on loans and borrowings, less cash and cash equivalents. Total capitalization is calculated as the total amount of the Company's debts and the net assets attributable to the Company's participants at the relevant date of calculation.

	Note	31 December 2008	31 December 2007
Total borrowings	12	1,530,693	1,609,951
Less: cash and cash equivalents	7	(749,915)	(634,411)
Net borrowings		**780,778**	**975,540**
Net assets attributable to participants	14	4,749,078	4,560,555
Total capitalization		**5,529,856**	**5,536,095**
Debt-to-Total capitalization ratio		**0.14**	**0.18**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, 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 Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment 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 not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortized cost. Carrying amounts of trade receivables approximate their fair values.

Liabilities carried at amortized cost. The fair value is based on quoted market prices, if available. Estimated fair values of borrowings are disclosed in note 12.

26. EVENTS AFTER THE BALANCE SHEET DATE

In 2009 the General Participants' meeting of the Company declared dividends to participants of RR 440,000 thousand (including withholding income tax on dividends of RR 22,000 thousand). The dividends were paid in January and March 2009.

APPENDIX I: OPERATING INFORMATION

Globaltrans

SELECTED OPERATIONAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

Derived from the management accounts.

1. **Rolling Stock Fleet** (as of the end of 2008 includes impact of the acquisition of AS Spacecom and AS Intopex Trans; as of the end of 2007—net of acquisitions)

		2008	2007	Change, %
1.1.	Rolling stock owned and leased under finance leases (at period end)			
	Gondola (open top) cars	12,997	11,668	11%
	Rail tank cars	9,489	5,337	78%
	incl. Spacecom and Intopex Trans	*4,152*	—	—
	Hopper cars	1,101	402	174%
	Locomotives	26	18	44%
	incl. Spacecom and Intopex Trans	*8*	—	—
	Other cars	0	0	—
		23,613	**17,425**	**36%**
1.2.	Rolling stock leased under operating leases (at period end)			
	Gondola (open top) cars	2,470	2,713	(9)%
	Rail tank cars	871	1,152	(24)%
	incl. Spacecom and Intopex Trans	*128*	—	—
	Hopper cars	12	0	—
	Locomotives	1	1	0%
	Other cars	0	38	(100)%
		3,354	**3,904**	**(14)%**
1.3.	Total rolling stock owned and leased under operating and finance leases (at period end)	**26,967**	**21,329**	**26%**
1.4.	Rolling stock leased out under operating leases (at period end)			
	Gondola (open top) cars	250	172	45%
	Rail tank cars	5,251	1,187	342%
	incl. Spacecom and Intopex Trans	*4,280*	—	—
	Hopper cars	453	100	353%
	Locomotives	18	15	20%
	incl. Spacecom and Intopex Trans	*3*	—	—
	Other cars	0	0	0%
		5,972	**1,474**	**305%**
1.5.	Average age of rolling stock owned and leased under finance leases (at period end)			
	Gondola (open top) cars	4.0	3.1	—
	Rail tank cars	4.4	2.8	—
	Hopper cars	1.4	1.2	—
	Locomotives	4.3	3.9	—
	Other cars	0	0	—
		4.1	**3.1**	**—**

Globaltrans

SELECTED OPERATIONAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (Continued)

Derived from the management accounts.

2. Operation of rolling stock (as of the end of 2008 and 2007, net of acquisitions)

		2008	2007	Change, %
2.1.	Freight Rail Turnover(1), billion tonnes-km	**61.7**	**61.0**	**1%**
2.2.	Freight Rail Turnover(1) by cargo type, billion tonnes-km			
	Ferrous metal	25.6	22.0	16%
	Scrap metal	3.3	3.9	(15)%
	Iron ore	3.3	6.3	(48)%
	Oil and oil products	12.4	16.7	(26)%
	Construction materials—crushed stone	1.2	1.5	(20)%
	Construction materials—cement	2.4	1.3	80%
	Construction materials—other	1.3	0.7	93%
	Coal (coke and energy coal)	8.3	3.1	166%
	Other	4.0	5.7	(29)%
2.3.	Transportation Volume, million tonnes	**33.3**	**35.4**	**(6)%**
2.4.	Transporation Volume by cargo type, million tonnes			
	Ferrous metal	8.9	9.6	(7)%
	Scrap metal	2.9	3.5	(17)%
	Iron ore	1.7	3.8	(56)%
	Oil and oil products	9.5	10.8	(12)%
	Construction materials—crushed stone	1.1	1.2	(7)%
	Construction materials—cement	1.2	0.2	408%
	Construction materials—other	0.7	0.5	46%
	Coal (coke and energy coal)	4.2	2.8	51%
	Other	3.1	3.1	(1)%
2.5.	Transportation Volume by cargo class			
	Class 1	36%	39%	—
	Class 2	25%	28%	—
	Class 3	39%	34%	—
2.6.	Average Rolling Stock Operated(2)			
	Gondola (open top) cars	14,588	14,212	3%
	Rail tank cars	5,028	5,992	(16)%
	Hopper cars	428	95	352%
	Locomotives	4	4	0%
	Other cars	10	0	—
		20,057	**20,303**	**(1)%**
2.7.	Average Number of Loaded Trips per Railcar(3)			
	Gondola (open top) cars	25.0	27.7	(10)%
	Rail tank cars	31.1	29.6	5%
	Hopper cars	22.4	4.1	451%
		26.5	**28.2**	**(6)%**
2.8.	Average Distance of Loaded Trip, km			
	Gondola (open top) cars	2,136.1	1,847.7	16%
	Rail tank cars	1,277.5	1,550.2	(18)%
	Hopper cars	736.3	635.0	16%
		1,855.4	**1,751.5**	**6%**

Globaltrans

SELECTED OPERATIONAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (Continued)

Derived from the management accounts.

		2008	2007	Change, %
2.9.	Empty Run Ratio[4]			
	Gondola (open top) cars	32%	21%	—
	Rail tank cars and hopper cars	100%	100%	—
2.10.	Average Price per Trip[5], USD	816.0	616.8	32%
2.11.	Net Revenue from Operation of Rolling Stock[6] by cargo type, million USD			
	Ferrous metals, scrap metals and iron ore	202.0	165.2	22%
	Oil and oil products	132.0	135.0	(2)%
	Coal (coke and energy coal)	36.8	10.4	253%
	Construction materials (incl. cement)	24.1	10.3	134%
	Other	39.0	31.9	22%
		433.9	**352.8**	**23%**
2.12.	Net Revenue from Operation of Rolling Stock[6] by cargo class			
	Class 1	23%	22%	—
	Class 2	25%	37%	—
	Class 3	52%	41%	—
2.13.	Net Revenue from Operation of Rolling Stock[6] by largest clients[7]			
	Severstal	11%	12%	—
	MMK	13%	10%	—
	Evraz	13%	9%	—
	Ural steel	2%	4%	—
	Mechel	2%	0%	—
	Rosneft	3%	14%	—
	Lukoil	20%	18%	—
	RITEK	5%	5%	—
	Other	31%	29%	—
2.14.	Empty Run Costs[8], million USD	86.7	82.5	5%
2.15.	Share of empty run kilometers paid by Globaltrans[9]	63%	69%	—

3. Employees (as of the end of 2008 includes impact of the acquisition of AS Spacecom and AS Intopex Trans; as of the end of 2007—net of acquisitions)

		2008	2007	Change, %
3.1.	Employees by departments (simplified)			
	Operations[10]	339	317	7%
	incl. Spacecom and Intopex Trans	26	—	—
	Administrative[11]	211	174	21%
	incl. Spacecom and Intopex Trans	11	—	—
		550	**491**	**12%**

4. Standalone operational information of AS Spacecom and AS Intopex Trans

		2008	2007	Change, %
4.1.	Rolling stock owned and leased under finance leases (at period end)			
	Rail tank cars	4,152	4,152	0%
	Locomotives	8	13	(38)%
		4,160	**4,165**	**0%**

SELECTED OPERATIONAL INFORMATION FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (Continued)

Derived from the management accounts.

		2008	2007	Change, %
4.2.	Rolling stock leased under operating leases (at period end)			
	Rail tank cars	128	0	—
4.3.	Total rolling stock owned and leased under operating and finance leases (at period end)	**4,288**	**4,165**	**3%**
4.4.	Rolling stock leased out under operating leases (at period end)			
	Rail tank cars	4,280	4,152	3%
	Locomotives	3	3	0%
		4,283	**4,155**	**3%**
4.5.	Employees by departments (simplified)			
	Operations	26	117	(78)%
	Administrative	11	12	(8)%
		37	**129**	**(71)%**

5. Notes

(1) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

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

(3) 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.

(4) Empty Run Ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. 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).

(5) Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(6) Net Revenue from Operation of Rolling Stock is defined as "revenue from railway transportation—operator's services" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods).

(7) Largest clients defined as clients, as well as their affiliates and suppliers.

(8) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips and services provided by other transportation organisations" component of cost of sales reported by EU IFRS. Empty Run Costs excludes the impact of the transfer and consolidation of Spacecom and Intopex for all periods.

(9) Share of empty run kilometers paid by Globaltrans (in %).

(10) Includes commercial, transport and transport management, IT, marketing and development, OAO Russian Railways liaison and logistics departments and local offices.

(11) Includes employees of the administration, accounting and finance, public relations and other departments.

Globaltrans

SELECTED OPERATIONAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2009 AND 2008

Derived from management accounts

1. Rolling Stock Fleet

		1H 2009	1H 2008	Change, %	FY 2008
1.1.	Rolling stock owned and leased under finance lease (at period end)				
	Gondola (open top) cars	13,057	12,098	8%	12,997
	Rail tank cars	9,543	9,489	1%	9,489
	Hopper cars	1,101	712	55%	1,101
	Locomotives	26	26	0%	26
	Flat cars	78	0	0%	
	Other cars	0	0	0%	0
		23,805	**22,325**	**7%**	**23,613**
1.2.	Rolling stock leased under operating lease (at period end)				
	Gondola (open top) cars	1,856	2,526	(27)%	2,470
	Rail tank cars	685	920	(26)%	871
	Hopper cars	0	113	(100)%	12
	Locomotives	1	1	0%	1
	Flat cars	0	0	0%	
	Other cars	0	0		0
		2,542	**3,560**	**(29)%**	**3,354**
1.3.	Total rolling stock owned and leased under operating and finance leases (at period end)	**26,347**	**25,885**	**2%**	**26,967**
1.4.	Rolling stock leased out under operating lease (at period end)				
	Gondola (open top) cars	150	250	(40)%	250
	Rail tank cars	4,839	5,353	(10)%	5,251
	Hopper cars	690	373	85%	453
	Locomotives	18	18	0%	18
	Flat cars	0	0	0%	0
	Other cars	0	0	0%	0
		5,697	**5,994**	**(5)%**	**5,972**
1.5.	Average age of rolling stock owned and leased under finance lease (at period end)				
	Gondola (open top) cars	4.5	3.8	—	4.0
	Rail tank cars	4.7	3.8	—	4.4
	Hopper cars	1.9	1.2	—	1.4
	Locomotives	4.8	3.8	—	4.3
	Flat cars	0.3	0.0	—	0.0
	Other cars	0.0	0.0	—	0.0
		4.5	**3.7**	**—**	**4.1**

SELECTED OPERATIONAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2009 AND 2008 (Continued)

Derived from management accounts

2. Operation of rolling stock

		1H 2009	1H 2008	Change, %	FY 2008
2.1.	Freight Rail Turnover[1], billion tonnes-km	**31.2**	**32.6**	**(4)%**	**61.7**
2.1.1.	Freight Rail Turnover[1] by cargo type, billion tonnes-km				
	Ferrous metal	16.7	13.3	26%	25.6
	Scrap metal	0.4	1.8	(76)%	3.3
	Iron ore	1.9	2.3	(17)%	3.3
	Oil and oil products	6.2	6.4	(3)%	12.4
	Construction materials—crushed stone	0.4	0.6	(37)%	1.2
	Construction materials—cement	0.4	1.5	(76)%	2.4
	Construction materials—other	0.5	0.8	(44)%	1.3
	Coal (coke and energy coal)	3.8	2.6	44%	8.3
	Other	0.9	3.1	(72)%	4.0
2.2.	Transportation Volume, million tonnes	**16.0**	**16.8**	**(5)%**	**33.3**
2.2.1.	Transporation Volume by cargo type, million tonnes				
	Ferrous metal	4.8	4.6	3%	8.9
	Scrap metal	0.9	1.6	(42)%	2.9
	Iron ore	0.5	1.0	(50)%	1.7
	Oil and oil products	4.6	4.8	(4)%	9.5
	Construction materials—crushed stone	0.4	0.5	(33)%	1.1
	Construction materials—cement	0.4	0.7	(35)%	1.2
	Construction materials—other	0.3	0.4	(13)%	0.7
	Coal (coke and energy coal)	3.0	1.7	79%	4.2
	Other	1.1	1.5	(30)%	3.1
2.2.2.	Transportation Volume by cargo class				
	Class 1	38%	34%	—	36%
	Class 2	25%	26%	—	25%
	Class 3	37%	40%	—	39%
2.2.3.	Average Rolling Stock Operated[2]				
	Gondola (open top) cars	14,460	14,514	0%	14,588
	Rail tank cars	5,189	5,196	0%	5,028
	Hopper cars	519	314	65%	428
	Locomotives	4	4	0%	4
	Other cars	21	19	12%	10
		20,194	**20,047**	**1%**	**20,057**
2.2.4.	Average Number of Loaded Trips per Railcar[3]				
	Gondola (open top) cars	11.9	12.9	(8)%	25.0
	Rail tank cars	14.6	15.1	(3)%	31.1
	Hopper cars	8.8	12.2	(27)%	22.4
		12.5	**13.5**	**(7)%**	**26.5**

2. Operation of rolling stock (Continued)

		1H 2009	1H 2008	Change, %	FY 2008
2.3.	Average Distance of Loaded Trip, km				
	Gondola (open top) cars	2,260.6	2,213.5	2%	2,136.1
	Rail tank cars	1,370.0	1,320.0	4%	1,277.5
	Hopper cars	937.6	662.9	41%	736.3
		1,969.4	**1,930.7**	**2%**	**1,855.4**
2.4.	Empty Run ratio(4)				
	Gondola (open top) cars	54%	19%	—	32%
	Rail tank cars and hopper cars	96%	100%	—	100%
	Total Emtpy Run Ratio(5)	**63%**	**36%**	—	**46%**
2.5.	Average Price per Trip(6), USD	**590.2**	**812.2**	**(27)%**	**816.0**
2.6.	Net Revenue from Operation of Rolling Stock(7) by cargo type, million USD				
	Ferrous metal	72.0	82.6	(13)%	160.1
	Scrap metal	2.8	17.0	(83)%	30.4
	Iron ore	3.9	8.2	(52)%	11.5
	Oil and oil products	44.2	68.8	(36)%	132.0
	Coal (coke and energy coal)	10.7	8.9	20%	36.8
	Construction materials (incl. cement)	4.2	13.4	(69)%	24.1
	Other	11.4	20.5	(45)%	39.0
		149.2	**219.3**	**(32)%**	**433.9**
2.7.	Net Revenue from Operation of Rolling Stock(7) by cargo class				
	Class 1	17%	23%	—	23.4%
	Class 2	22%	29%	—	25.1%
	Class 3	60%	48%	—	51.5%
2.8.	Net Revenue from Operation of Rolling Stock(7) by largest clients(8)				
	Severstal	7%	11%	—	11%
	MMK	21%	13%	—	13%
	Evraz	18%	10%	—	13%
	Ural steel	1%	2%	—	2%
	Mechel	1%	0%	—	2%
	Rosneft	2%	3%	—	3%
	Lukoil	20%	21%	—	20%
	RITEK	4%	6%	—	5%
	Other	25%	34%	—	31%
2.9.	Empty Run Costs(9), million USD	**45.6**	**39.3**	**16%**	**86.7**
2.10.	Share of empty run kilometers paid by Globaltrans(10)	**75%**	**62%**	**21%**	**63%**

3. Employees

		1H 2009	1H 2008	Change, %	FY 2008
3.1.	Employees by departments (simplified)				
	Operations[11]	321	360	(11)%	339
	Administrative[12]	213	189	13%	211
		534	**549**	**(3)%**	**550**

4. Notes

(1) Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

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

(3) Average Number of Loaded Trips per Railcar is calculated as the total number of loaded trips in the relevant year divided by Average Rolling Stock Operated.

(4) Empty Run ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by the total of loaded trips in kilometres of such rolling stock type. 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).

(5) Total Empty Run Ratio is calculated as total kilometers travelled empty divided by kilometers travelled loaded by the Rolling Stock Fleet operated by Globaltrans (excluding fleet leased out) in the reporting period.

(6) Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

(7) Net Revenue from Operation of Rolling Stock is defined as "revenue from railway transportation—operator's services" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of Spacecom and Intopex for all periods).

(8) Largest clients defined as clients, as well as their affiliates and suppliers.

(9) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips and services provided by other transportation organisations" component of cost of sales reported by EU IFRS. Empty Run Costs excludes the impact of the transfer and consolidation of Spacecom and Intopex for all periods.

(10) Share of empty run kilometers paid by Globaltrans (in %).

(11) Includes commercial, transport and transport management, IT, marketing and development, OAO "Russian Railways" liaison and logistics departments and local offices.

(12) Includes employees of the administration, accounting and finance, public relations and other departments.

REGISTERED OFFICE OF THE COMPANY

Globaltrans Investment PLC
Omirou 20
Agios Nikolaos
P.C. 3095
Limassol
Cyprus

SELLING SHAREHOLDER

Transportation Investments Holding Limited
Omirou 20
Agios Nikolaos
P.C. 3095
Limassol
Cyprus

JOINT GLOBAL COORDINATORS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

JOINT BOOKRUNNERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

VTB Capital plc
14 Cornhill
London EC3V 3ND
United Kingdom

CO-LEAD MANAGER

UniCredit CAIB Securities UK Ltd.
Moor House
120 London Wall
London EC2Y 5ET
United Kingdom

LEGAL ADVISERS TO THE COMPANY

as to English and United States law
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

as to Russian law
Freshfields Bruckhaus Deringer
14/2 Kadashevskaya Embankment
Moscow 119017
Russian Federation

as to Cypriot law
Georgiades & Pelides
Eagle House, 10th Floor
16 Kyriakos Matsis Avenue
Ayioi Omoloyites
1082 Nicosia
Cyprus

LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

as to English law
Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS
United Kingdom

as to Russian and United States law
Herbert Smith CIS LLP
10 Ulitsa Nikolskaya
Moscow 109012
Russian Federation

as to Cypriot law
Chrysses Demetriades & Co Law Office
284 Arch. Makarios III Avenue
3105 Limassol
Cyprus

INDEPENDENT AUDITORS TO THE COMPANY

PricewaterhouseCoopers Limited
Julia House
3 Themistocles Dervis Street
CY-1066 Nicosia
Cyprus

DEPOSITARY

The Bank of New York Mellon
One Wall Street
New York, NY 10286
United States of America

Merrill Corporation Ltd, London
09ZEG40201