Globaltrans Investment Plc

(previously Globaltrans Investment Limited)

Directors' report and consolidated financial statements for the year ended 31 December 2008

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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. 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.

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

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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.

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.

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.

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; and
- development and implementation of the policy on non-audit services provided by the external auditor;
- 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 USD'000s	2008 Total USD'000s	2007 Total USD'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 to 61) 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

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Sergey Maltsev
Chief Executive Director

Mikhail Loganov
Director

PRICEWATERHOUSECOOPERS

INVESTOR IN PEOPLE

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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 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.

PricewaterhouseCoopers Limited
Chartered Accountants

Limassol, 10 April 2009

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 16 to 61 are an integral part of these financial statements.

Consolidated balance sheet

at 31 December 2008

	Note	**2008 US$'000**	2007 US$'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.

Sergey Maltsev, Director

Mikhail Loganov, Director

The notes on pages 16 to 61 are an integral part of these financial statements

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 16 to 61 are an integral part of these financial statements.

Consolidated cash flow statement
for the year ended 31 December 2008

	Note	**2008** US$'000	2007 US$'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 16 to 61 are an integral part of these financial statements.

Notes to the consolidated 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	Effective % interest held 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 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. IFRIC12 "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 IFRIC12 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 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 IFRS7, "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 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.

- 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 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.

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.

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.

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 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).

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.

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.

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.

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.

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).

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 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.

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.

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.

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.

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**
	USD 000's	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	USD 000's	USD 000's	USD 000's	**USD 000's**
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**
	USD 000's	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	USD 000's	USD 000's	**USD 000's**
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)**

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**
	USD 000's	USD 000's	USD 000's	**USD 000's**	USD 000's				USD 000's	USD 000's	USD 000's	USD 000's	**USD 000's**
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**
	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	USD 000's	USD 000's	**USD 000's**
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**

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**
	USD 000's	**USD 000's**	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's	USD 000's	**USD 000's**
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 USD 000's**	Russian subsidiaries	Russian subsidiaries	Estonian subsidiaries	Unallocated	**Group**
	USD 000's	USD 000's	**USD 000's**	USD 000's	USD 000's		USD 000's	USD 000's	USD 000's	USD 000's	**USD 000's**
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**

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 US$'000		
	Russian subsidiaries	Estonian subsidiaries	**Total**
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**

	2007 US$'000			
	Russian subsidiaries	Estonian subsidiaries	Unallocated	**Total**
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 US$'000	2007 US$'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

	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	2007
	US$'000	US$'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	2007
	US$'000	US$'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	2007
	US$'000	US$'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	2007
	US$'000	US$'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

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

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

	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.

Cash at bank and short-term bank deposits[(1)]

		2008	2007
Agency	Rating	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 US$'000	2007 US$'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

	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	2007
	US$'000	US$'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).

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 month	**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.

The finance lease receivables are scheduled as follows:

	Less than 1 year US$'000	Between 1 to 5 years US$'000	**Total US$'000**
At 31 December 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 US$'000	2007 US$'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 US$'000	2007 US$'000
Raw materials and consumables	**660**	544

All inventories are stated at cost.

18 Cash and cash equivalents

	2008 US$'000	2007 US$'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).

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

	2008 US$'000	2007 US$'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 US$'000	Share premium US$'000	Total 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

	2008 US$'000	2007 US$'000
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%).

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).

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

The Group has the following undrawn borrowing facilities:

	2008	2007
	US$'000	US$'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%

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

23 Deferred income tax

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

	2008	2007
	US$'000	US$'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	2007
	US$'000	US$'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

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

Deferred tax liabilities	Property, plant and equipment US$'000	Lease liability US$'000	Tax losses US$'000	Trade and other payables US$'000	Other assets US$'000	Other liabilities US$'000	Total 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 US$'000	2007 US$'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 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.

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.

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.

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)).

(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.

(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 US$'000	2007 US$'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 US$'000	2007 US$'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).

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

	2008 US$'000	2007 US$'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

	2008	2007
	US$'000	US$'000
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.

(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 US$'000	2007 US$'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 US$'000	2007 US$'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	**-**	-

The loans from the entity with significant influence over the Group was payable on 31 December 2009 and carried interest at 12.5%.

	2008 US$'000	2007 US$'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 US$'000	2007 US$'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**

- 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.

(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.

The carrying amounts of assets and liabilities of AS Spacecom were as follows:

	01 October 2004 US$'000	01 January 2007 US$'000	31 December 2007 US$'000	31 March 2008* US$'000	31 December 2008 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 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:

	01 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";

- 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 to 11.