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

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A ***QIB***) OR ANOTHER APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THERE WILL BE NO PUBLIC OFFER IN THE UNITED STATES.

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

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

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

Globaltrans

Globaltrans Investment PLC

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

Offering of 28,469,700 Global Depositary Receipts
Offer Price: USD 16.50 per Global Depositary Receipt

This offering memorandum (the ***Offering Memorandum***) relates to an offering (the ***Offering***) of 28,469,700 global depositary receipts (***New GDRs***, and together with all currently existing global depositary receipts, the ***GDRs***) comprising (i) 24,242,500 New GDR's offered by Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus (the ***Company***), and (ii) 4,227,200 New GDRs offered by Transportation Investments Holding Limited, a company organised and existing under the laws of Cyprus (***TIHL*** or the ***Selling Shareholder***). The New GDRs represent interests in ordinary shares of the Company, each with a nominal value of USD 0.10 (the ***Ordinary Shares***), and each New GDR represents an interest in one Ordinary Share. The New GDRs offered by the Company consist of 3,637,117 New GDRs in respect of Ordinary Shares held by the Company as treasury shares and 20,605,383 New GDRs in respect of newly-issued Ordinary Shares.

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

In addition, the Selling Shareholder has granted to Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc and SIB (Cyprus) Limited (the ***Joint Bookrunners***) an option within 30 days of the announcement of the offer price (the ***Offer Price***) to purchase an additional 3,030,300 New GDRs at the Offer Price, solely to cover over-allotments, if any, in connection with the Offering (the ***Over-Allotment Option***).

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

The New GDRs are specialised investments and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "*Risk Factors*" beginning on page 10 for a discussion of certain matters that prospective investors should consider prior to making an investment in the New GDRs.

The Financial Services Authority (the ***FSA***) in its capacity as competent authority under the Financial Services and Markets Act 2000 (***FSMA***) has granted admission to the official list maintained by the FSA and to the regulated main market of London Stock Exchange plc (***London Stock Exchange***) of up to 158,135,533 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York Mellon (the ***Depositary***), of which 57,856,998 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". **The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.**

The Rule 144A GDRs will be evidenced by the master Rule 144A GDR (the ***Master Rule 144A GDR***), which is registered in the name of Cede & Co., as nominee for The Depository Trust Company (***DTC***). The Regulation S GDRs will be evidenced by the master Regulation S GDR (the ***Master Regulation S GDR***, which together with the Master Rule 144A GDR, are referred to as the ***Master GDRs***), which is registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (***Euroclear***) and Clearstream Banking, société anonyme (***Clearstream, Luxembourg***). The Ordinary Shares represented by the New GDRs will be held by BNY (Nominees) Limited, as custodian (the ***Custodian***), for the Depositary. Except as described herein, beneficial interests in the Master GDRs are held, and transfers thereof are elected only through, DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Transfers within DTC, Euroclear and Clearstream, Luxembourg are in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the New GDRs will be made against payment therefore in US Dollars in same day funds on or about 17 July 2012 (the ***Closing Date***) through the facilities of DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs.

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **J.P. Morgan** **Morgan Stanley** **Troika Dialog**

The date of this Offering Memorandum is 12 July 2012.

IMPORTANT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

STABILISATION

In connection with the Offering, Deutsche Bank AG, London Branch (the ***Stabilising Manager***) (or any agent or other person acting for the Stabilising Manager), may over-allot an additional 3,030,300 New GDRs or effect other stabilisation transactions with a view to supporting the market price of the New GDRs at a higher level than that which might otherwise prevail in the open market. Such stabilisation activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the announcement of the Offer Price and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions, and there can be no assurance that stabilising transactions will be undertaken. Such stabilising, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the New GDRs above the Offer Price.

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

NOTICE TO UK AND OTHER EEA INVESTORS

This Offering Memorandum is only addressed to and directed at persons in member states of the European Economic Area (the ***EEA***), who are "qualified investors" (***Qualified Investors***) within the meaning of Article 2(1)(e) of Directive 2003/71/EC (and any amendments thereto, including Directive 2010/73/EU) (the ***Prospectus Directive***). In addition, in the United Kingdom, this Offering Memorandum is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the ***Order***) or high net worth entities falling within Article 49(2)(a)-(d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as ***relevant persons***). The New GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, relevant persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors.

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

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

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any New GDRs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

 (i) the New GDRs acquired by it in the Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale; or

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

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

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Neither the GDRs nor this Offering Memorandum have been, or are intended to be, registered with the Federal Service for Financial Markets of the Russian Federation (the ***FSFM***) or any other state bodies that may from time to time be responsible for such registration and are not intended for "placement" or "public circulation". This Offering Memorandum and information contained herein are not a public offer or advertisement of securities in the Russian Federation and are not an offer, or an invitation to make offers, to purchase, sell, exchange or transfer any securities in the Russian Federation or to or for the benefit of any Russian person or entity, unless and to the extent otherwise permitted under Russian law, and must not be made publicly available in Russia. Information contained in this document is intended only for persons who are "qualified investors" within the meaning of Article 51.2 of the Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended (the ***Russian QIs***) and must not be made available to any persons who are not Russian QIs or otherwise permitted under Russian law to access such information. The GDRs have not been and will not be registered in Russia and are not intended for "placement", "public circulation" , "offering" or "advertising" (each as defined in Russian law) in the Russian Federation except as permitted by Russian law.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The New GDRs offered in the Offering have not been, or will not be, registered under the Securities Act, or with any securities authority of any state or other jurisdiction of the United States, and the New GDRs may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction. The New GDRs are only being offered pursuant to exemptions from, or in transactions not subject to, registration under the Securities Act. Prospective investors are hereby notified that sellers of the New GDRs may be relying on the exemption from the registration provisions of Section 5 of the Securities Act provided by Rule 144A. There will be no public offer in the United States. For certain restrictions on sales and transfers of the New GDRs, see "*Selling and Transfer Restrictions*".

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

AVAILABLE INFORMATION

So long as any New GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company has agreed that it will, during any period in which it is neither subject to Section 13 or 15(d) of the US Securities Exchange Act of 1934 (as amended) (the ***Exchange Act***), nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish, upon request, to any holder or beneficial owner of such Restricted Securities, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

ENFORCEMENT OF CIVIL LIABILITIES

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

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

FORWARD-LOOKING STATEMENTS

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

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

- fluctuations in the Group's financial results and financial conditions;
- changes in political, social, legal or economic conditions in Russia or elsewhere;
- the Group's ability to service the Group's existing indebtedness;
- the Group's ability to fund future operations and capital needs through borrowing or otherwise;
- the Group's ability to successfully implement any of the Group's business strategies;
- trends and expectations as to growth in the markets in which the Group operates;
- the Group's expectations about growth in demand for the Group's services;
- the Group's future investments and acquisitions;
- competition in the marketplace;
- inflation, interest rates and fluctuation in exchange rates;
- a changing regulatory environment; and
- the Group's success in identifying other risks to the Group's business and managing the risks of the aforementioned factors.

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

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

These forward-looking statements reflect the Group's judgment at the date of this document and are not intended to give any assurances as to future results. The Group undertakes no obligation to update these forward-looking statements, and will not publicly release any revisions it may make to these forward-looking statements that may result from events or circumstances arising after the date of this document. The Group will comply with its obligations to publish updated information as required by law or by any regulatory authority but assumes no further obligation to publish additional information. None of the Group, its management or the Joint Bookrunners can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

The Group's audited consolidated financial statements as at and for the years ended 31 December 2009, 2010 and 2011 (the ***Consolidated Financial Statements***) and the Group's unaudited condensed consolidated financial information as at and for the three months ended 31 March 2012 (with 2011 comparatives) (the

Interim Condensed Consolidated Financial Information, and together with the Consolidated Financial Statements, the ***Consolidated Financial Information***) included or incorporated by reference in this Offering Memorandum have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (***EU IFRS***). The financial statements of LLC Metalloinvesttrans, a limited liability company incorporated in the Russian Federation, (***MIT***) as at and for the year ended 31 December 2011 (with 2010 comparatives) included in this Offering Memorandum (the ***MIT Financial Statements***), have been prepared in accordance with International Financial Reporting Standards (***IFRS***). The Interim Condensed Consolidated Financial Information was prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting".

IFRS represents International Financial Reporting Standards issued by the International Accounting Standards Board and effective for the periods presented. Standards are adopted by the European Commission through an endorsement procedure, with in some cases, revised effective dates. EU IFRS represents IFRS as endorsed by the European Commission. The differences in the effective standards between IFRS and EU IFRS are disclosed in Note 2 to the Consolidated Financial Statements as at and for the year ended 31 December 2011.

The Consolidated Financial Statements include the assets, liabilities, revenues and expenses that were directly related to the Company and all its subsidiaries during the relevant financial period. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, where such control is not transitory) are accounted for using the predecessor basis of accounting. Under this method financial statements of the acquirees are included in the Consolidated Financial Statements as though the Group (in such a composition) was in existence for all periods presented. On this basis, the assets and results of BaltTransServis LLC (***BTS***), which was acquired by the Group in December 2009, have been included in each period covered by the Consolidated Financial Statements for the year ended 31 December 2009.

The Consolidated Financial Information is presented in US Dollars, which the Group's management believes to be better understood by the principal users of the financial statements. The functional currency of the Company, its Cypriot subsidiaries and its Russian subsidiaries is the Rouble. The Company's Estonian and Finnish subsidiaries have the Euro as their functional currency and the Company's Ukrainian subsidiary has the Ukrainian Hryvna as its functional currency. The balance sheets of the Group's companies which have currencies other than the US Dollar as their functional currency are translated into US Dollars, at the exchange rate prevailing at the date of the relevant balance sheet, whereas income and expense items are translated into US Dollars at the average monthly exchange rates using the official exchange rates of the central bank of the country of registration of each entity, which approximate the exchange rate existing at the date of the transactions, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". All resulting foreign currency exchange rate differences are recognised in other comprehensive income. The MIT Financial Statements are presented in Roubles, which is the functional currency of MIT.

This Offering Memorandum also includes unaudited pro forma financial information which has been adjusted to reflect the impact of the acquisition by OJSC New Forwarding Company (***New Forwarding Company***), a member of the Group, of MIT in May 2012 (the ***MIT Acquisition***) on the Group's results of operations and financial position as at and for the year ended 31 December 2011. This unaudited pro forma financial information is provided for illustrative purposes only and does not purport to represent what the actual results of operations or the financial position of the Group would have been had the MIT Acquisition occurred on the dates specified above, nor is it necessarily indicative of the operating results or financial position of the Group for any future periods. The unaudited pro forma financial information reflects management's best estimates. Because of its nature, the unaudited pro forma financial information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of operations of the Group. The actual consolidated financial position and results of operations of the Group may differ significantly from the pro forma amounts reflected herein because of various factors. For more information on the unaudited pro forma financial information, see "*Unaudited Pro Forma Financial Information*". For purposes of the unaudited pro forma financial information as at and for the year ended 31 December 2011 included in this Offering Memorandum, MIT's balance sheet items are translated into US Dollars at the exchange rate prevailing at the date of the relevant balance sheet, and MIT's income statement items incurred in currencies other than the US Dollar are translated into US Dollars at average exchange rates for the respective periods, which approximate the exchange rates existing at the dates of the transactions.

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

INCORPORATION BY REFERENCE

The Consolidated Financial Statements (a) as at and for the year ended 31 December 2010, including the auditors' report of PricewaterhouseCoopers Limited relating to the Consolidated Financial Statements as at and for the year ended 31 December 2010 dated 1 April 2011, and (b) as at and for the year ended 31 December 2009, including the auditors' report of PricewaterhouseCoopers Limited relating to the Consolidated Financial Statements as at and for the year ended 31 December 2009 dated 9 April 2010, are incorporated by reference in, and form part of, this Offering Memorandum.

Copies of any or all of the documents deemed to be incorporated by reference herein may be obtained, free of charge, at http://www.globaltrans.com/download-centre/financial-reports/.

NON-GAAP FINANCIAL INFORMATION

In this Offering Memorandum certain measures not recognised by EU IFRS or IFRS (referred to as non-GAAP measures) are reported. The Group's management believes that these non-GAAP measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's or MIT's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. This Offering Memorandum contains the following non-GAAP measures as supplemental measures of the Group's and, in some cases, MIT's operating performance:

- Adjusted Revenue;
- Net Revenue from Operation of Rolling Stock;
- EBITDA;
- Adjusted EBITDA and Adjusted EBITDA Margin;
- Empty Run Costs;
- Net Debt (in respect of the Group only);
- Adjusted Profit for the Period (in respect of MIT only); and
- Return on capital employed (***ROCE***).

All of these supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, for analysis of operating results, liquidity or discretionary cash or as alternatives to revenues, profit, operating profit, cash flow from operating activities or any other measures of performance as reported under EU IFRS or IFRS.

Some of these limitations are as follows:

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

Other companies in the freight rail transportation sector may calculate Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Empty Run Costs, Net Debt, Adjusted Profit for the Period or ROCE differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures. Further, in some cases, the component items of some of these measures differ between the Group and MIT.

For definitions of these non-GAAP measures for the Group and a reconciliation of Adjusted Revenue to revenue and Net Revenue from Operation of Rolling Stock to railway transportation—operators services, and a reconciliation of EBITDA and Adjusted EBITDA to profit for the year, see the footnotes under "*Selected Consolidated Financial and Operating Information—Selected Group Financial and Operating Information*". Certain adjustments in these reconciliations have been derived from the management accounts of MIT.

For definitions of these non-GAAP measures for MIT and a reconciliation of Adjusted Revenue to revenue, and a reconciliation of EBITDA, Adjusted EBITDA and Adjusted Profit to change in net assets attributable to participants, see the footnotes under "*Business and Financial Information of MIT—Selected Financial and Operating Information*".

For definitions of selected non-GAAP measures for the Group on a ***Pro Forma*** basis for the MIT Acquisition, see the footnotes under "*Summary—Additional Pro Forma Financial and Operating Information*".

All non-GAAP financial information is calculated on the basis of EU IFRS (or IFRS in the case of MIT) financial statements and/or management accounts.

STATISTICAL AND MARKET DATA

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

- The Central Bank of the Russian Federation (***CBR***);
- the Federal State Statistics Service of the Russian Federation (***Rosstat***);
- the Economist Intelligence Unit (***EIU***);
- OAO "Russian Railways" (***Russian Railways***); and
- Bloomberg.

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

The official data published by Russian federal, regional and local government agencies is substantially less complete or researched than that of more developed countries. Official statistics, including data published by the CBR and Rosstat, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to Russia in this Offering Memorandum must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

OTHER DATA AND INFORMATION

Operating measures

This Offering Memorandum contains certain additional operating measures of the Group's and MIT's performance. The Group's management believes that these operating measures provide valuable information to readers because they enable the reader to focus more directly on the operating performance of the Group's or MIT's business.

This Offering Memorandum contains the following operating measures for the Group and MIT:

- Freight Rail Turnover;
- Transportation Volume;
- Average Price Per Trip;

- Empty Run Ratio for gondola (open top) cars;
- Empty Run Ratio for rail tank and hopper cars;
- Total Empty Run Ratio;
- Share of Empty Run Kilometres Paid;
- Average Number of Loaded Trips Per Railcar;
- Average Distance of Loaded Trips; and
- Average Rolling Stock Operated.

Other companies in the freight rail transportation sector may calculate the foregoing measures differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures. Further, in some cases, the component items of some of these measures differ between the Group and MIT.

For definitions of these operating measures for the Group, see the footnotes under *"Selected Consolidated Financial and Operating Information—Selected Group Financial and Operating Information"*.

For definitions of these operating measures for MIT, see the footnotes under *"Business and Financial Information of MIT—Selected Consolidated Financial and Operating Information"*.

For definitions of selected operating measures for the Group on a ***Pro Forma*** basis for the MIT Acquisition, see the footnotes under *"Summary—Additional Pro Forma Financial and Operating Information"*.

This Offering Memorandum also contains certain additional measures relating to cargoes transported by the Group, MIT and for the Russian freight rail transportation market, as defined below.

- ***Freight Rail Turnover*** is a measure of freight carriage activity over a particular period and is calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.
- ***Transportation Volume*** is a measure of freight rail carriage activity over a particular period measuring weight of cargo carried in million tonnes or thousand tonnes.

Fleet terminology

In this Offering Memorandum, in relation to the Group or MIT or both on a Pro Forma basis for the MIT Acquisition, unless otherwise stated, references to:

- ***Owned Fleet*** means the rolling stock fleet owned and leased-in under finance leases, including both railcars and locomotives.
- ***Leased-in Fleet*** means the rolling stock fleet leased-in under operating leases, including both railcars and locomotives.
- ***Engaged Fleet*** means the railcar fleet subcontracted or otherwise attracted from a third-party operator for a loaded trip from the point of origination to the cargo's destination, at which point the railcar is then released to such third-party.
- ***Leased-out Fleet*** means the rolling stock fleet leased to third parties under operating leases.
- ***Total Fleet*** means the Owned Fleet and the Leased-in Fleet, including both railcars and locomotives, but excludes the Engaged Fleet.
- ***Average Rolling Stock Operated*** is calculated as the average weighted (by days) number of railcars available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out).

For definitions of Pro Forma Owned Fleet, Pro Forma Leased-in Fleet and Pro Forma Total Fleet, see the footnotes under *"Summary—Additional Pro Forma Financial and Operating Information"*.

Market share data

Market share data has been calculating using the Group's own information as the numerator and information published by Rosstat as the denominator, unless otherwise stated.

MIT information

This Offering Memorandum also contains information obtained from entities in the Metalloinvest group of companies (***Metalloinvest***) relating to MIT and its operations, including the MIT Financial Statements. Such information was obtained in connection with the MIT Acquisition and, although diligenced by the Group, such diligence was subject to limitations.

EXCHANGE RATE INFORMATION

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

	RUB per USD 1.00			
	High	Low	Period average(1)	Period end
Year ended 31 December				
2007	26.58	24.26	25.55	24.55
2008	29.38	23.13	24.87	29.38
2009	36.43	28.67	31.77	30.24
2010	31.78	28.93	30.38	30.48
2011	32.68	27.26	29.39	32.20
Month ended				
31 January 2012	31.93	30.36	31.24	30.36
29 February 2012	30.41	28.95	29.89	28.95
31 March 2012	29.67	28.95	29.33	29.33
30 April 2012	29.80	29.28	29.49	29.36
31 May 2012	32.45	29.37	30.80	32.45
30 June 2012	34.04	32.13	32.88	32.82

Source: Based on CBR data

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

The CBR Rate per USD 1.00 published by the CBR on 12 July 2012 was RUB 32.83.

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

CONTENTS

SUMMARY

This summary should be read as an introduction to this Offering Memorandum and any decision to invest in the New GDRs offered in the Offering should be based on consideration of this Offering Memorandum as a whole. Where a claim relating to the information contained in this Offering Memorandum is brought before a court in a member state of the European Economic Area, the plaintiff investor might, under the national legislation of that member state where the claim is brought, be required to bear the costs of translating this Offering Memorandum before legal proceedings are initiated. Civil liability attaches to those persons responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Offering Memorandum.

The Group's Business

The Group is a leading private freight rail transportation group with operations in Russia, the CIS and the Baltic countries. Based on Rosstat data and the Group's management accounts, the market share of the Group on a Pro Forma basis for the MIT Acquisition (see *"—MIT Acquisition"* below) amounted to 7.0 per cent. of the overall Russian freight rail Transportation Volume, which by freight type included 15.3 per cent. of the total volume of metallurgical cargoes (ferrous metal, scrap metals, and ores), 9.9 per cent. of the total volume of oil products and oil, and 4.8 per cent. of the total volume of coal (thermal and coking) transported in Russia in 2011.

The Group's main business is the provision of freight rail transportation services, which accounted for 94.2 per cent. of the Pro Forma Adjusted Revenue in 2011, and is complemented by a railcar leasing business, which accounted for 5.4 per cent of the Pro Forma Adjusted Revenue in 2011. In 2011, the Pro Forma Freight Rail Turnover amounted to 144.9 billion tonnes-kilometres and Pro Forma Transportation Volume amounted to 86.4 million tonnes.

The Group provides services to more than 650 customers, and its key customers include companies in, or suppliers to or off-takers of, a number of large Russian industrial groups in the metals and mining sector (including Evraz, Mechel, Metalloinvest, MMK and Severstal) and the oil products and oil sector (including GazpromNeft, Lukoil, Rosneft and TNK-BP).

The Pro Forma Total Fleet amounted to 57,461 units of rolling stock as at 31 March 2012 (including Pro Forma Owned Fleet of 51,147 units). In addition, as at 5 July 2012, the Group had taken delivery of an additional 6,616 railcars. It also expects to take delivery of a further 817 railcars by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). The Group's fleet is primarily focused on operating a fleet of gondola (open top) cars and rail tank cars. The Group also operates a limited number of locomotives for use in addition to the traction services provided by Russian Railways.

For the year ended 31 December 2011, the Group had Pro Forma Adjusted Revenue of USD 1,489 million and Pro Forma Adjusted EBITDA of USD 646 million.

Strengths

The Group believes that it has a number of key competitive strengths, which have enabled it to increase its revenue, profits, and market share over the period since its creation. The Group believes that these strengths have enabled the Group to demonstrate a relatively resilient performance during the economic downturn in 2008-2009 and subsequent recovery and are expected to enable the Group to continue to capitalise on its leading position in the Russian freight rail transportation and logistics market in the future. These strengths include the following:

- A leading independent private freight rail group in Russia
- Rolling stock fleet focused on gondola (open top) cars and rail tank cars
- Active fleet management
- Established and strong blue-chip customer base
- Experienced management team

Strategy

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

- Focusing on return oriented fleet expansion and growth in business volumes
- Maintaining a resilient business profile
- Maintaining operational excellence through improvements in operational efficiency

Recent Developments

Since 31 March 2012, the Group has continued to perform in line with management's expectations, and management believes that the financial and performance outlook for the remainder of the year is also in line with its expectations. In addition, the following significant developments have occurred.

- The Group completed the MIT Acquisition in May 2012. See *"—MIT Acquisition"* below. In connection with the MIT Acquisition, in April 2012, the Group entered into and drew down in full a three-year floating rate USD 400 million secured credit facility with OJSC Sberbank of Russia (***Sberbank***). See also *"Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility"*.
- In the period between 1 April 2012 and 5 July 2012, the Group has taken delivery of 6,616 railcars. Under existing contractual arrangements, the Group expects to take delivery of a further 817 units by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). In connection with those new rolling stock acquisitions, in the same period, the Group has borrowed a total of USD 502,557 thousand from financial institutions under existing and new facilities.

MIT Acquisition

In May 2012, the Group acquired a 100 per cent. interest in MIT, the "captive" freight rail transportation operator of Metalloinvest, for USD 540 million on a cash and debt free basis, assuming normalised working capital and no capital commitments. As at 31 March 2012, MIT's Total Fleet consisted of 8,943 railcars (including Owned Fleet of 8,256 railcars), of which 8,453 were gondola (open top) railcars. Historically, MIT has predominantly served the metallurgical cargo flows of Metalloinvest using its Total Fleet as well as a significant amount of Engaged Fleet, and after the MIT Acquisition, Metalloinvest will increase in significance as a key customer of the Group. In line with its strategy, the Group has acquired MIT to expand its railcar fleet as well as to obtain access to significant new cargo flows pursuant to the freight service arrangements with Metalloinvest described below, as a supplement to its own organic growth. For further details of the MIT business, results of operations and financial condition, see *"Business and Financial Information of MIT"*.

In connection with the MIT Acquisition, MIT has entered into an arrangement with Metalloinvest under which Metalloinvest's main production entities, which produce and trade iron ore and hot briquetted iron (***HBI***), will use MIT for freight rail transportation services (the ***MIT Freight Service Contracts***). These arrangements provide for MIT to manage 100 per cent. of Metalloinvest's rail transportation volumes for the year ended 31 May 2013 and give MIT a right of first refusal over 60 per cent. of such volumes for each of the years ended 31 May 2014 and 2015, subject to certain conditions. The price of these services is fixed for different cargoes and routes for the year ended 31 May 2013 but will be determined by reference to market prices (established from a tender among large operators) in the subsequent two years. The volume of these cargoes is expected to be larger than the capacity of MIT's Owned Fleet. As a result, MIT will lease-in rolling stock under operating leases or use Engaged Fleet to service these cargoes in part. For further details of the MIT Freight Service Contracts, see *"Material Contracts and Related Party Transactions—Material Contracts—MIT Freight Service Contracts"*.

The MIT Acquisition was financed in part by the proceeds of a USD 400 million three-year floating rate secured credit facility provided by Sberbank, entered into in April 2012. For further details of that loan and the related security, see *"Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility"*.

Risk Factors

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

Risks relating to the Group's business and industry

- The Group is dependent on demand in Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth in Russia, European countries and elsewhere.
- The freight rail transportation market in Russia may suffer from oversupply of railcars.
- The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine.
- The Group's customer base is heavily dependent on a few large industrial groups and their suppliers.
- The Group's freight service contracts do not guarantee firm volumes of cargo or destinations.
- The Company does not have an agreement with its significant shareholders to ensure they will not abuse their control of the Company and the Group's significant beneficial shareholders may have interests that conflict with those of the holders of the GDRs.
- The Group may be subject to increasing competition from other transportation and logistics companies.
- Expansion of the Group's business may place a strain on its resources and subject it to additional risks.
- The Group's relationship with Russian Railways and government authorities may deteriorate.
- The Group's profitability is dependent upon Russian Railways' infrastructure use and locomotive tariffs, which constitute the largest cost item for the Group.
- The Group is subject to risks relating to the potential postponement or cancellation of certain steps towards the reform of the Russian rail transportation market.
- Insufficient supply of, or increases in the price of, rolling stock may limit the Group's operations.
- The Group's competitive position and prospects depend on the expertise and experience of its key managers.
- The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel.
- Failure to meet customers' expectations and timely delivery requirements could damage the Group's customer relationships and business reputation.
- Lack of a reliable register for recording title to, and encumbrances on, railcars in Russia.
- The Group may be adversely affected by wage increases in Russia.
- A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Group.
- The Group's insurance policies may be insufficient to cover certain losses.
- The Group's information technology systems may fail or be perceived to be insecure.
- The information technology software systems used by the Group could cease to be available.
- The Group is exposed to risks arising from rail depot ownership.
- The Group is dependent on locomotive crews and permits provided by Russian Railways.
- Risks related to VAT recovery issues.

Risks relating to MIT

- The Group may not be able to successfully integrate MIT into its operations.
- MIT has only had one main customer, Metalloinvest.
- MIT's main customer, Metalloinvest, is only obliged to use MIT's services for one year after the MIT Acquisition.
- The MIT Freight Service Contracts may not be profitable.
- Certain of MIT's key employees may return to the vendor's group within three months of the completion of the MIT Acquisition.
- MIT has had high rates of employee turnover.
- Metalloinvest may develop a competing freight rail transportation business using former key employees of MIT.
- MIT may have weaknesses in its internal controls.

Risks relating to the Group's financial condition

- The Group's indebtedness could adversely affect the Group's operational and financial condition.
- The Group's growth strategy requires significant funding.
- The Group is subject to foreign exchange risk.
- The Group may be subject to interest rate risk.
- The Group may be subject to credit risk.
- The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries.
- The preparation of the Group's EU IFRS financial statements are subject to certain risks.

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

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

SUMMARY OF THE OFFERING

The Offering consists of an offering of 24,242,500 New GDRs by the Company and 4,227,200 New GDRs by the Selling Shareholder, with each New GDR representing an interest in one Ordinary Share. The New GDRs offered by the Company consist of 3,637,117 New GDRs in respect of Ordinary Shares held by the Company as treasury shares and 20,605,383 New GDRs in respect of newly-issued Ordinary Shares. The New GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act. Pursuant to a shareholders' resolution adopted on 4 May 2012, the shareholders of the Company have resolved that pre-emptive rights to subscribe for up to 75,782,595 Ordinary Shares in the Offering would be disapplied for one year from the date of the adoption of such resolution.

DIVIDEND POLICY

Holders of the GDRs are entitled to receive amounts, if any, paid by the Company as dividends on the underlying Ordinary Shares, subject to certain provisions. The Company's current dividend policy is to recommend to shareholders a dividend per annum of not less than 30 per cent. of the imputed consolidated net profit (if any) of the Group based on the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS. Imputed consolidated net profit of the Group is calculated as the consolidated net profit for the period of the Group attributable to the owners of the Group as shown in the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS, less certain non-cash adjustments determined by the Board of Directors. See *"Dividend Policy"*.

Use of Proceeds

The Company will receive gross proceeds of approximately USD 400.0 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 14.1 million. The Company intends to use the net proceeds from the Offering for general corporate purposes. The Company will not receive any proceeds from the New GDRs being sold by the Selling Shareholder. See *"Use of Proceeds"*.

Summary Financial Information and Other Information

The summary financial information set forth below as at 31 March 2012 and for the three months ended 31 March 2012 and 2011, and as at and for the years ended 31 December 2011 and 2010, has been extracted from the Interim Condensed Consolidated Financial Information as at and for the three months ended 31 March 2012, and the Consolidated Financial Statements as at and for the year ended 31 December 2011, respectively, included in this Offering Memorandum. The summary financial information as at and for the year ended 31 December 2009 has been extracted from the Consolidated Financial Statements as at and for the year ended 31 December 2009 incorporated by reference in this Offering Memorandum. The other information set forth below shows certain unaudited (non-GAAP) financial information and operating information as at 31 March 2012 and for the three months ended 31 March 2012 and 2011, and as at and for the years ended 31 December 2011, 2010 and 2009. Financial results, additional unaudited (non-GAAP) financial information and certain operating information as at and for the years ended 31 December 2011 and 2010 for MIT are set forth in *"Business and Financial Information of MIT"*.

Summary consolidated income statement data

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
	(unaudited)				
	(USD in thousands)				
Revenue	452,551	440,903	1,733,056	1,382,670	1,163,407
Cost of sales	(300,151)	(317,599)	(1,210,827)	(981,428)	(874,152)
Gross profit	**152,400**	**123,304**	**522,229**	**401,242**	**289,255**
Selling and marketing costs	(839)	(694)	(3,088)	(2,692)	(2,181)
Administrative expenses	(17,991)	(17,785)	(90,317)	(72,225)	(58,793)
Other gains—net	36	879	3,140	3,048	785
Operating profit	**133,606**	**105,704**	**431,964**	**329,373**	**229,066**
Finance income	(1,049)	(4,978)	7,362	7,203	5,886
Finance costs	(7,290)	(3,620)	(39,935)	(53,109)	(84,559)
Finance costs—net	**(8,339)**	**(8,598)**	**(32,573)**	**(45,906)**	**(78,673)**
Share of profit of associates	14	126	428	206	461
Profit before income tax	**125,281**	**97,232**	**399,819**	**283,673**	**150,854**
Income tax expense	(30,718)	(21,539)	(82,593)	(57,733)	(29,681)
Profit for the year	**94,563**	**75,693**	**317,226**	**225,940**	**121,173**
Attributable to:					
Owners of the Company	80,017	61,355	266,423	177,322	88,057
Non-controlling interest	14,546	14,338	50,803	48,618	33,116
	94,563	**75,693**	**317,226**	**225,940**	**121,173**
Basic and diluted earnings per share for profit attributed to equity holders of the Company during the year (in USD per share)	0.52	0.39	1.68	1.12	0.74

Summary consolidated balance sheet data

	As at 31 March 2012	As at 31 December 2011	2010	2009
	(unaudited)			
		(USD in thousands)		
Assets				
Non-current assets	1,483,974	1,183,943	1,178,402	961,902
Non-current assets held for sale	—	—	—	2,827
Current assets	552,761	283,905	336,939	300,239
Total assets	**2,036,735**	**1,467,848**	**1,515,341**	**1,264,968**
Equity and liabilities				
Total equity attributable to owners of the Company	968,250	858,061	753,859	610,261
Non-controlling interest	153,329	130,994	130,106	101,307
Total equity	**1,121,579**	**989,055**	**883,965**	**711,568**
Total non-current liabilities	641,291	243,628	370,787	334,917
Total current liabilities	273,865	235,165	260,589	218,483
Total liabilities	**915,156**	**478,793**	**631,376**	**553,400**
Total equity and liabilities	**2,036,735**	**1,467,848**	**1,515,341**	**1,264,968**

Additional (non-GAAP) financial information

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
	(USD in thousands, unless otherwise indicated)				
Adjusted Revenue(1)(2)	304,851	289,642	1,177,026	902,999	685,255
Net Revenue from Operation of Rolling Stock(1)(3)	278,752	271,354	1,095,765	830,042	618,478
EBITDA(1)(4)	155,204	126,168	505,577	385,319	261,630
Adjusted EBITDA(1)(5)	153,280	122,506	505,127	390,906	284,458
Adjusted EBITDA Margin (%)(1)(5)	50.3%	42.3%	42.9%	43.3%	41.5%
Empty Run Costs(1)(6)	59,504	61,254	233,790	203,386	167,877
ROCE (%)(1)(7)	32%	31%	31%	26%	21%
Net Debt(1)(8)	462,984	N/A	258,355	381,336	288,878

Operating information

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
Freight Rail Turnover (billion tonnes-km)(9)	25.5	28.2	110.6	97.4	80.9
Transportation Volume (million tonnes)(10)	15.9	18.3	69.6	63.8	52.8
Average Price Per Trip (USD)(11)	1,090.1	909.0	970.8	770.4	716.9
Average Price Per Trip (RUB)(11)	32,734	26,511	28,536	23,403	22,773
Empty Run Ratio for gondola (open top) cars(12)	45%	44%	41%	42%	46%
Empty Run Ratio for rail tank and hopper cars(12)	107%	109%	111%	108%	114%
Total Empty Run Ratio(13)	66%	63%	62%	62%	72%
Share of Empty Run Kilometres Paid by the Group(14)	78%	78%	78%	82%	83%
Average Number of Loaded Trips Per Railcar(15)	6.5	6.5	26.6	29.3	30.4
Average Distance of Loaded Trips (km)(16)	1,590.9	1,549.0	1,596.6	1,504.0	1,537.8
Average Rolling Stock Operated(17)	39,056	45,623	42,363	36,793	28,406
Owned Fleet (at period end)	42,891(18)	38,968	39,910	38,173	32,384
Leased-in Fleet (at period end)	5,627	13,849	7,670	12,541	4,833
Total Fleet (at period end)	48,518(18)	52,817	47,580	50,714	37,217

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

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

(3) Net Revenue from Operation of Rolling Stock is defined as the sum of revenue from railway transportation—operator's services (tariff borne by the Group) and revenue from railway transportation—operator's services (tariff borne by the client) less infrastructure and locomotive tariffs: loaded trips.

(4) EBITDA is calculated as profit for the year, before income tax expense, finance costs—net, excluding net foreign exchange transaction gains/(losses) on financing activities, amortisation of intangible assets and depreciation of property, plant and equipment. For the three months ended 31 March 2012 and 2011, net foreign exchange transaction gains/(losses) on financing activities is calculated as the sum of foreign exchange gains on borrowings (contained in finance costs) and foreign exchange losses on cash and cash equivalents and finance lease receivables (contained in finance income).

(5) Adjusted EBITDA represents EBITDA less net foreign transaction exchange gains/(losses) on financing activities, share of profit/(loss) of associates and other gains/(losses)—net, other gains/(losses)—net, loss on sale of property, plant and equipment and reversal of/(impairment charge) for property, plant and equipment. For the three months ended 31 March 2012 and 2011, net foreign exchange transaction gains/(losses) on financing activities is calculated as the sum of foreign exchange gains on borrowings (contained in finance costs) and foreign exchange losses on cash and cash equivalents and finance lease receivables (contained in finance income). Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Adjusted Revenue, expressed as a percentage.

(6) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the empty run trips and services provided by other transportation organisations component of cost of sales reported under EU IFRS.

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

(8) Net Debt is calculated as the sum of current and non-current borrowings less cash and cash equivalents.

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

(10) Transportation Volume is a measure of freight rail carriage activity over a particular period measuring weight of cargo carried in million tonnes or thousand tonnes.

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

(12) Empty Run Ratio is calculated as the total of empty trips in kilometres by the relevant rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out).

(13) Total Empty Run Ratio is calculated as total kilometres travelled empty divided by total kilometres travelled loaded by the fleet operated by the Group (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

(14) Share of Empty Run Kilometres Paid by the Group is defined as the percentage of Empty Run kilometres paid by the Group divided by the total amount of Empty Run kilometres incurred by the fleet operated by the Group (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

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

(16) Average Distance of Loaded Trip is calculated as the sum of distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

(18) Does not include 6,616 railcars, which the Group had taken delivery of as at 5 July 2012, nor an additional 817 railcars, which the Group expects to take delivery of by the end of August 2012.

ADDITIONAL PRO FORMA FINANCIAL AND OPERATING INFORMATION

	Year ended 31 December 2011
	(USD in thousands, unless otherwise indicated)
Pro Forma Adjusted Revenue[(1)(2)]	1,488,956
Pro Forma Adjusted EBITDA[(1)(3)]	645,764
Pro Forma Adjusted EBITDA Margin[(1)(3)]	43.4%
Pro Forma Net Debt (at year end)[(1)(4)]	798,355
Pro Forma basic and diluted earnings per Ordinary Share[(5)]	2.03

	Three months ended 31 March 2012	Year ended 31 December 2011
Pro Forma Freight Rail Turnover (billion tonnes-km)[(6)]	N/A	144.9
Pro Forma Transportation Volume (million tonnes)[(7)]	N/A	86.4
Pro Forma Average Rolling Stock Operated[(8)]	47,694	51,762
Pro Forma Owned Fleet (at period end)[(9)]	51,147[(10)]	48,166
Pro Forma Leased-in Fleet (at period end)[(9)]	6,314	8,616
Pro Forma Total Fleet (at period end)[(9)]	57,461[(10)]	56,782

(1) Pro Forma Adjusted Revenue, Pro Forma Adjusted EBITDA and Pro Forma Net Debt are non-GAAP measures presented as supplemental measures of the Group's operating performance on a Pro Forma basis. These supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's and MIT's results as reported under EU IFRS and IFRS, respectively. See *"Presentation of Financial and Other Information"* and *"Unaudited Pro Forma Financial Information"*.

(2) Pro Forma Adjusted Revenue is calculated as revenue less infrastructure and locomotive tariffs: loaded trips for the relevant period as shown in the supplemental schedule of revenue and cost of sales for the year ended 31 December 2011. Certain information included in the calculation of Pro Forma Adjusted Revenue is derived from management accounts. See "Unaudited Pro Forma Financial Information—Supplemental Schedule of Revenue and Cost of Sales for the year ended 31 December 2011".

(3) Pro Forma Adjusted EBITDA is calculated as profit for the year less income tax expense, finance costs—net, amortisation of intangible assets, depreciation of property, plant and equipment (consisting of USD 91,442 thousand from cost of sales and USD 1,150 thousand from administrative expenses), share of profit of associates, other gains/(losses)—net, loss/(gain) on sale of property, plant and equipment and reversal of impairment charge for property, plant and equipment for the relevant period as shown in the unaudited Pro Forma condensed consolidated income statement for the year ended 31 December 2011 and the supplemental schedule of revenue and cost of sales for the year ended 31 December 2011. See *"Unaudited Pro Forma Financial Information—Unaudited Pro Forma Financial Information—Condensed Consolidated Income Statement for the year ended*

31 December 2011" and *"Pro Forma Financial Information—Supplemental Schedule of Revenue and Cost of Sales for the year ended 31 December 2011"*. Pro Forma Adjusted EBITDA Margin is calculated as Pro Forma Adjusted EBITDA divided by Pro Forma Adjusted Revenue, expressed as a percentage.

(4) Pro Forma Net Debt is calculated as the sum of current and non-current borrowings less cash and cash equivalents as at the relevant period end as shown in the unaudited Pro Forma condensed consolidated balance sheet as at 31 December 2011. See *"Unaudited Pro Forma Financial Information—Unaudited Pro Forma Financial Information—Condensed Consolidated Balance Sheet as at 31 December 2011"*.

(5) See *"Unaudited Pro Forma Financial Information—Unaudited Pro Forma Financial Information—Condensed Consolidated Income Statement for the year ended 31 December 2011"*.

(6) Pro Forma Freight Rail Turnover is calculated as the sum of the Freight Rail Turnover for MIT's Owned Fleet and Leased-in Fleet and the Freight Rail Turnover for the Group for the relevant period.

(7) Pro Forma Transportation Volume is calculated as the sum of the Transportation Volume for MIT's Owned Fleet and Leased-in Fleet and the Transportation Volume for the Group for the relevant period.

(8) Pro Forma Average Rolling Stock Operated is calculated as the sum of the average weighted (by days) number of railcars available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) for each of the Group and MIT for the relevant period.

(9) Pro Forma Owned Fleet, Pro Forma Leased-in Fleet and Pro Forma Total Fleet are each calculated as the sum of the relevant item in respect of the Group and in respect of MIT as at the end of the relevant period.

(10) Does not include 6,616 railcars, which the Group had taken delivery of as at 5 July 2012, nor an additional 817 railcars, which the Group expects to take delivery of by the end of August 2012.

RISK FACTORS

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

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

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

The Group is dependent on the demand in the Russian rail transportation market, which in turn depends on certain key commodities sectors, and accordingly, on economic growth in Russia, European countries and elsewhere.

The Group is dependent on the demand for freight rail transportation services in Russia. Freight rail volumes in Russia are largely comprised of commodities, such as coal, oil products and oil and construction materials, ferrous metals, scrap metals and iron ore. The Russian markets for such commodities contribute significantly to the gross domestic product (***GDP***) in Russia which experienced strong growth over the period from 2003 to 2011, increasing from USD 432 billion in 2003 to USD 1,857 billion in 2011. Similarly, according to Rosstat, Freight Rail Turnover, which is driven by growth in the Russian economy and commodities markets, increased by a compound annual growth rate of 4.1 per cent. during the period from 2000 to 2011.

Due to the severe contraction in the Russian economy in the second half of 2008 and 2009, Freight Rail Turnover in 2009 was 12 per cent. lower than in 2008. In 2010 and 2011, however, Russian Freight Rail Turnover returned to positive growth, increasing by 8 per cent. and 6 per cent., respectively, over the applicable previous year, according to Rosstat, as economic conditions and the demand for key commodities in Russia improved. Given the Group's dependence on the shipment of key commodities and the strength of the Russian economy for its rail transportation volumes, decreased demand for key commodities in Russia, or in adjacent countries, including in European countries, where the commodities of the Group's key customers are shipped by rail, as a result of an economic downturn or otherwise in Russia, European countries or elsewhere, could materially impair the Group's growth prospects and could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

The freight rail transportation market in Russia may suffer from an oversupply of railcars.

In recent years, freight rail transportation operators in Russia such as the Group have purchased large numbers of new railcars in response to increases in demand for freight rail transportation and the relatively high age of the Russian railcar fleet. While the resulting increase in the supply of railcars into the freight rail transportation market has not had an adverse effect on market prices in recent years, if operators continue to purchase new railcars at a rate disproportionate to increases in demand for freight rail transportation services, the Russian freight rail transportation market may suffer an oversupply of railcars.

Further, alternative means of cargo transportation may become available, such as with the commissioning of new pipelines for the transportation of oil or oil products. Existing forms of non-rail transportation may also become more attractive. Changes in Russian tax, duty or excise rules may negatively affect the demand or supply of some cargoes, such as taxes on exports of heavy oil products with the aim of encouraging a lower share of heavy fuel output from the domestic refining process. Any of these may, in turn, negatively affect the demand for freight rail transportation services for those cargoes and therefore cause an oversupply of railcars in the market.

With effect from November 2012, the Empty Run tariffs payable to Russian Railways are expected to be unified to a single tariff (subject to certain exceptions), irrespective of the type of cargo last transported.

This may change the way operators manage their logistics and may cause the Russian railcar fleet to be operated more efficiently as operators will not need to transport cargoes with a lower tariff part way along a return journey to minimise the Empty Run cost. If the efficiency of the Russian railcar fleet is improved, an oversupply of railcars may potentially arise.

If any of the foregoing were to occur, the oversupply of railcars could negatively affect the market prices for the Group's services, which in turn, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine.

Russian Railways has a monopolistic role as the sole railway infrastructure operator, while also enjoying a near monopoly in the provision of locomotive traction services. As a freight rail operator, the Group depends on the railway infrastructure operated, and for locomotive, repair and maintenance and other services provided, as well as operating information generated, by Russian Railways.

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

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

The Group's customer base is characterised by significant concentration, with cargo flows associated with nine key industrial groups (including cargo flows associated with their suppliers and off-takers) accounting for 67.0 per cent. of the Group's Net Revenue from the Operation of Rolling Stock during the year ended 31 December 2011. Further, cargo flows associated with the largest four industrial groups contributed to approximately 47 per cent. of the Group's Net Revenue from the Operation of Rolling Stock in the same period. In addition, as a result of the MIT Acquisition and the MIT Freight Service Contracts, the Metalloinvest group (already one of the Group's top four customers) will become an even more significant customer of the Group. Most of the Group's key customers utilise the Group's services for transportation of cargoes that have historically generated high revenues and the geographically diverse locations of those customers' production facilities, and of their customers and suppliers, are important drivers of profitability for the Group. Other than the up to three-year MIT Freight Service Contracts, the Group does not have long-term contracts with any of its key customers. As a result its customers have the option to take their custom to the Group's competitors. Although the Group has enjoyed good working relations with all of its key customers to date, there can be no assurance that the Group will retain their custom in the future, or that their custom, if lost, could be easily replaced by that of other customers on comparable terms and/or volume or at all. If the Group loses any of these key customer groups, and is not able to replace their business, this could materially and adversely affect the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group's freight service contracts do not guarantee firm volumes of cargo or destinations.

Like other freight rail transportation operators, the Group generally enters into one year contracts with its key customers that have automatic renewal provisions and are terminable upon the request of either party before the end of the contract term. Under these contracts, the Group generally agrees amounts of cargo to be transported on a monthly basis but the Group remains at risk that these are not provided until the cargo is actually loaded into the railcars as Russian law does not recognise the concept of "take or pay" or guaranteed volumes of cargo. The MIT Freight Service Contracts include arrangements under which Metalloinvest is required to use MIT to manage the transportation of all of its freight rail cargo volumes in the first year and 60 per cent. of those volumes in the second and third years (subject in the second and third years to agreement on pricing and conditions). There can be no assurance, however, that a Russian court or arbitral tribunal applying Russian law would enforce these requirements or that Metalloinvest will provide the expected volumes of cargo. Any failure by the Group's key customers, including Metalloinvest, to provide expected volumes of cargoes for shipment by the Group could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Company does not have an agreement with its significant shareholders to ensure they will not abuse their control of the Company and the Group's significant beneficial shareholders may have interests that conflict with those of the holders of the GDRs.

After the Offering is completed, the Selling Shareholder, Envesta Investments Ltd, a company organised and existing under the laws of Cyprus (***EIL***), and Litten Investments Ltd, a company organised and existing under the laws of Cyprus (***Litten***) are expected to own approximately 40.3 per cent., 8.8 per cent. and 2.0 per cent. of the Company's issued share capital (assuming the Over-Allotment Option is exercised in full). In addition, the Selling Shareholder and EIL are parties to a Shareholders Agreement with regard to the conduct and management of the Group. See "*Principal Shareholders and the Selling Shareholder*". As such, the Selling Shareholder and EIL still will be able to exercise significant influence over the Group, such as in electing members of the Board of Directors and significantly influencing the outcome of resolutions at general meetings of shareholders. There are no agreements in place between the Company, the Selling Shareholder and EIL to ensure that the Selling Shareholder and EIL will not abuse their significant influence over the Company.

In addition, the significant beneficial shareholders of the Selling Shareholder and EIL have investments in other businesses, including some which currently compete, or may in the future compete, with the Group. The significant beneficial shareholders of the Selling Shareholder and EIL may therefore have interests and exercise their control of the Company in a manner inconsistent with, and may even be adverse to, those of other shareholders, any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. For information regarding the controlling shareholders, see *"Principal Shareholders and the Selling Shareholder"*.

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

The Russian rail transportation market is becoming increasingly competitive. While the Group has one of the largest fleets in Russia, there are several other private operators (although fewer than ten) that have sufficient scale to service the large cargo of Group's key customer groups. In particular, Nezavisimaya Transportnaya Kompania (***NTK***), which is owned by UCL Rail and owns OJSC Freight One (***Freight One***), formerly a subsidiary of Russian Railways, has a significant fleet, and Russian Railways with its subsidiaries, including OJSC Freight Two (***Freight Two***), continues to operate a significant percentage of the overall Russian railcar fleet. Further, in recent years, Neftetransservice is believed to have grown its fleet significantly, with the acquisition of a significant number of gondola (open top) cars in addition to its sizeable fleet of rail tank cars.

The Group believes that there is a trend toward consolidation in the industry and that this consolidation may increase the competitive pressures in the market. This may result in competition from competitors with more resources and better access to clients as well as the emergence of more competitors with sufficient scale to compete with the Group. Increased competition may lead to adverse changes in the prevailing pricing conditions, which could adversely affect the Group's profitability. Although the Group believes that, to date, it has been able to compete successfully, there can be no assurance that the Group will be able to do so in the future, and any failure to do so could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

Expansion of the Group's business may place a strain on its resources and subject it to additional risks.

The success of the Group's business strategy is dependent, among other things, on the successful expansion of the Group's operations. Expansion also may put a strain on the Group's management resources, distracting the Group's managers from their current tasks and/or require additional management resources to be deployed by the Group. Although the Group believes that its current managerial, administrative, technical and financial resources are capable of supporting its recent and proposed future expansion, there can be no assurance that the Group's existing resources will be sufficient for this purpose, or that the Group will be able to acquire necessary additional resources on commercially acceptable terms or at all. In particular, there can be no assurance that the Group's existing sales, logistics and dispatching capabilities, which are key for the efficiency and reliability of the Group's business, will continue to support the Group's business at the requisite levels of efficiency if and when the Group's fleet, operational reach and clientele are expanded as contemplated by the Group's strategy. Any failure by the Group to acquire, maintain and deploy adequate management, sales, logistics, administrative, technical and financial resources to support its expansion, could undermine the Group's business strategy, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Expansion through acquisition, including the MIT Acquisition, entails additional risks, including the failure to conduct appropriate due diligence on a target's operations and/or financial condition, the overvaluation of the target and thus the payment of consideration greater than the target's market value, the incurrence of significantly higher than anticipated financing-related risks and operating expenses, and the discovery of larger than anticipated or previously undisclosed liabilities. Acquiring additional businesses can also place increased pressures on the Group's cash flows, especially if the acquisition is paid for in cash on hand or obtained from borrowings. Additionally, if an acquisition is not completed, this may adversely impact the Group's strategic objectives. If any such risks materialise in conjunction with an acquisition, including the MIT Acquisition, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

In addition, the Group may experience problems in integrating acquired businesses, including MIT, into its business and managing them optimally. These risks include failing to effectively assimilate and integrate the operations and personnel of an acquired company into the Group's business, failing to install and integrate all necessary systems and controls, including logistics and distribution facilities and arrangements, conflicts between majority and minority shareholders, hostility and/or lack of cooperation from the acquisition's management and the potential loss of the acquired company's customers. Moreover, the broader disruptions in operations and the strain on management resources, including the diversion of attention from management's normal day-to-day business, that often occur in conjunction with an acquisition may impose significant costs on the Group. If the Group experiences problems arising from the integration of acquired businesses, including MIT, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also *"—Risks Relating to MIT"*.

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

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

In addition, the Group is dependent on the services (including maintenance and repairs) and information provided by, and its relationship with, Russian Railways, an entity controlled by the state. See *"—The Group's business is heavily dependent on services provided by Russian Railways and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine"* above. Although the Group has enjoyed a good relationship with Russian Railways, there is no assurance that it will always continue to do so in the future. There can be no assurance that, because of the Group's dependence on the rail infrastructure, locomotive and other services provided by Russian Railways, the Group will not become subject to competitive pressures exerted by Russian Railways or that the Group's competitors will not receive better treatment in terms of service levels and delivery times than those received by the Group. On some routes, the Group currently utilises its own locomotives and may expand its use of owned locomotives in the future, if applicable regulations permit. Current Russian regulation on the use of locomotives is incomplete and ambiguous in relation to procedures through which private companies may operate locomotives, and access for private locomotives to infrastructure is dependent on the cooperation of Russian Railways. Moreover, Russian Railways, as a monopoly carrier, does not fully support the private operation of locomotives in competition with Russian Railways locomotive services. There is a risk that Russian Railways may delay applications for, or refuse to grant permission necessary for the Group to provide services. If the Group's relationship with Russian Railways deteriorates, if such competitive pressures manifest themselves or increase, or if government authorities introduce changes to the legislative regime governing locomotive usage that negatively affect the ability of the Group to operate locomotives, any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group's profitability is dependent upon Russian Railways' infrastructure use and locomotive tariffs, which constitute the largest cost item for the Group.

Empty Run Costs are the largest contributor to the Group's operating costs after infrastructure and locomotive tariffs for loaded trips (which is a "pass through" cost for the Group), and are comprised largely of the infrastructure use and locomotive tariffs charged by Russian Railways. At the end of each trip, after the customers' cargo has been transported to its destination, the empty railcar must be routed to the next loading destination, and on such empty journeys the infrastructure use and locomotive tariffs are currently based on the cargo carried on the immediately preceding loaded run and become a direct cost for the Group. The Group seeks to manage its Empty Run Costs through its route optimisation systems, which reduce the number of Empty Runs by matching routes and destinations to increase utilisation of its railcars on both outbound and return journeys, and through the use of block trains for which customers generally pay a portion of the tariffs applicable to the Empty Runs directly to Russian Railways. However, the Group's ability to effectively manage Empty Run Costs is limited and, as a result, it remains exposed to Russian Railways infrastructure and locomotive tariffs and increases in those tariffs. Further, if these tariffs were to increase, rail transportation may become less competitive than other forms of freight transportation, negatively affecting the demand for rail transportation. If any of the foregoing were to occur, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs.

With effect from November 2012, the Empty Run tariffs payable to Russian Railways are expected to be unified to a single tariff (subject to certain exceptions), irrespective of the type of cargo last transported so that there will no longer be the same cost benefit to managing the fleet in this manner. The Empty Run tariff unification may result in the Group and other freight rail carriers adopting different strategies to optimise their logistics but it remains to be determined what the impact on the market and the Group will be.

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

A significant factor in both the recent growth and the future prospects of the Group and the Russian freight rail industry in general is the structural reform of rail transportation in Russia that has taken place over recent years. While Russian Railways retains a monopoly in the provision of rail infrastructure and is a near monopoly in the provision of locomotive traction services, the regulatory framework now in effect provides third-party operators with a legal right to access such infrastructure on a non-discriminatory basis alongside Russian Railways and its subsidiaries and to determine their own pricing to customers. The Group and other private freight rail operators have benefitted from this reform, particularly as it relates to the provision of railcar services. They also hope to benefit further if proposals are implemented to liberalise the regulation of locomotive traction services so that private operators can provide such services. There is no certainty as to whether these proposals will be implemented or as to their timing. In addition, there have been suggestions by Russian Railways in the debate over further rail freight regulatory reform as to whether private operators should have public carrier-like obligations, such as obligations to publish a price list and to provide services at those prices. The Group believes that the implementation of any such suggestions or other measures would have the effect of unwinding or contradicting the reform. There has also been at least one situation where Russian Railways has sought to introduce changes to the regulatory environment which appear to directly contradict the intentions of the reform programme. Any cancellation of, delays in or unexpected changes to the reform of the Russian rail transportation market, including arising from the actions of Russian Railways, applicable regulators or law makers, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs.

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

There is a relatively limited number of quality rolling stock manufacturers in Russia and the CIS, and their output is limited by existing production capacities. In addition, the adaptability of these manufacturers' production facilities to change from one type of railcar to another is limited. Furthermore, given the advanced age of some of the rolling stock in Russia, demand and competition for new rolling stock are likely to increase. The prices of railcars are subject to price variations, as recently seen in 2011, where prices rose significantly before decreasing towards the end of the year. There can be no assurance that in the future the Group will be able to source sufficient supplies of quality new rolling stock for its fleet on commercially acceptable terms, or at all. If the Group is unable to acquire the requisite quantity of new rolling stock on commercially acceptable terms, experiences delays or failures in delivery of rolling stock ordered, if the new rolling stock delivered is of inferior quality or if its use is not permitted or suspended on the Russian Railways network because it comes from a manufacturer whose railcars have been suspended from use due to defects in design or construction, this could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and the trading price of the GDRs.

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

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

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

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

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

The Group's customers rely on the Group for high-quality and timely provision of its freight rail transportation and affiliated services and expect the Group to be commercially responsive to their needs which include timely pick up and delivery of cargo and availability of rolling stock. To meet quality of service expectations from customers, in particular, the Group must deliver railcars to customers upon request in a timely manner and in accordance with a customer's production cycle and that any railcars provided are of sufficient quality and possess the requisite certifications necessary to avoid delays when dispatching. The ability to meet those expectations is often outside the direct control of the Group. Since the Group relies on Russian Railways for locomotive traction and infrastructure usage, timely delivery of cargo is highly dependent on a third party whose differing incentives may result in its performing in a manner that would be unsatisfactory to the Group's customers. A significant delay in the delivery of customer cargo through its redirection to a destination other than the one intended by the customer, could lead to significant business interruption for, and/or material losses sustained by, such customer. Likewise, damage to the customer's cargo due to derailment or mishandling could also result in customer dissatisfaction with the delivery of the Group's services. The Group also may fail to meet customer expectations due to an insufficient supply of rolling stock available and mistakes in logistics planning (including delays in real-time information exchanges). Failure to meet customer expectations could lead to a significant loss of business by the Group and/or impairment of the Group's business reputation which, in turn, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also *"—The Group's customer base is heavily dependent on a few large industrial groups and their suppliers"*.

Lack of a reliable register for recording title to, and encumbrances on, railcars in Russia.

There is not a legally established reliable register in Russia for recording title to, and encumbrances on, railcars. As a result, disputes as to ownership of railcars and whether they have been pledged to a third party can arise if a railcar is not purchased from its original manufacturer. For example, the Group is currently in litigation with respect to railcars purchased by it from an unrelated third party on the basis that such railcars were unencumbered. A purported lender to the seller has claimed that the railcars were pledged to it, see page F-85 under the heading "Legal proceedings" in Note 28 to the Consolidated Financial Statements for the year ended 31 December 2011 and page F-19 under Note 18 to the Interim Consolidated Financial Information for the three months ended 31 March 2012. If this dispute is ultimately decided against the Group and similar disputes were to arise with respect to other railcars acquired by it, including railcars purchased in the MIT Acquisition, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

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

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

Rail operators are subject to accidents and derailments, both as a result of operational failure and due to the nature of the cargoes being transported. Although under Russian law, liability for such accidents or derailments is likely to be attributed to the owner of the cargo being transported and/or Russian Railways as the operator of the railway infrastructure, there can be no assurance that the Group would always be able to attribute responsibility to, and recover from, a third party in connection with such accidents or derailments. A major rail accident or derailment could also result in damage or loss of the Group's rolling stock and may also disrupt the Group's services. In such circumstances, the Group may not be able to rebuild or repair its railcar fleet or restore operations in a timely fashion or at all. In addition, the Group may not have sufficient insurance in place to cover the costs of such loss or disruption (see *"—The Group's insurance policies may be insufficient to cover certain losses"* below). Any negative publicity concerning any accident or derailment could also have a material adverse effect on the perception of the Group and the attractiveness of its services in the future. Accordingly, a major accident or derailment could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

The Group carries insurance for all of its rolling stock in line with market practice in the Russian Federation, but does not carry insurance policies to a similar extent as may be common in some of the more developed market economies of North America and Europe. For example, the Group generally does not carry third-party liability insurance or business interruption insurance, as the Group believes that under Russian law it is not liable for any third-party damages and that Russian Railways as carrier is liable with respect to such damages or losses rather than the Group. However, there can be no assurance that the Group will not be liable to third parties in connection with accidents affecting the cargo carried by the Group. In addition, the Group's exposure to these risks may increase significantly in connection with the provision of locomotive services in the future and if the Group were to become a carrier. Other risks for which the Group does not have separate insurance coverage include major accidents. The Group's failure to carry business interruption insurance also means that if the Group suffers an interruption in its ability to operate, there will be no income to pay its obligations, which may result in the Group selling assets at distressed prices, an inability to obtain credit or insolvency. If such uninsured events were to occur and the Group were liable for them, the Group could experience significant disruption in its operations and/or requirements to make significant payments for which it would not be compensated, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

The Group's business is dependent on the successful and uninterrupted functioning of its information technology systems and their integration with the information technology systems of Russian Railways. See *"Business—Information Technology"*. The Group relies on these systems for complex logistical, dispatching and tracking tasks critical for its customers' transportation needs and central to the Group's business. Although the Group has not experienced any significant failures or interruptions with respect to its information systems in the past, there can be no assurance that such a failure or interruption will not occur in the future. Actual or perceived failures or interruptions in the Group's information technology systems may compromise the Group's ability to provide its value-added transportation, logistics and tracking services, as well as result in costly delays in the shipment of customer cargo, or otherwise lead to a significant loss of customer business, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. The Group is currently not insured against any adverse effects from interruptions or failures of its information technology systems.

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

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

The Group is exposed to risks arising from rail depot ownership.

The Group operates a railcar repair and maintenance depot in Ivanovo and a locomotive repair and maintenance depot in Rybinsk which service some of the Group's rolling stock. Following repairs, the railcars and locomotives are inspected by a Russian Railways inspector and given permission to operate on Russian railways rail tracks. If following repairs Russian Railways finds a fault, it may uncouple the defective car and impose an uncoupling charge on the Group, as owner of the railcar. Moreover, if an accident or derailment occurs as a result of improper service or repair of a railcar at the depot, the Group could be held liable for damage done to the railway infrastructure, third parties or the environment. In the case of a derailment on Russian Railways' infrastructure, Russian Railways will act as an intermediary between the Group and any damaged party. The Group may suffer losses arising from damage to its own railcars or be found liable for third party losses caused by such damage and may be obliged to compensate Russian Railways. The Group does not carry insurance policies covering losses related to defects in railcars repaired at the Ivanovo depot or locomotives repaired at the Rybinks depot. If any of these risks materialise, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group is dependent on locomotive crews and permits provided by Russian Railways.

The Group is dependent upon Russian Railways to provide it with locomotive crews to operate its locomotives. The unavailability of such crews or their failure to perform their jobs properly would have an adverse effect of the ability of the Group to offer locomotive services to its customers. The Group is also dependent upon Russian Railways to issue permits for its operation of locomotives and to approve its use of locomotives for particular routes. If the procedures for obtaining such permits and approvals are changed or such permits and approvals became more difficult to obtain or for any reason became unavailable to the Group or to private operators generally (as a result of a change in the regulatory regime or otherwise), the Group may be unable to offer locomotive services to its customers. If any of these risks materialise, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Risks related to VAT recovery issues.

Under the Russian Tax Code, the Group is entitled to recover value added tax (***VAT***) paid to vendors, but such recovery may be difficult to claim. In the past, the Group has been involved in disputes and litigation relating to the recovery of such VAT. While no significant disputes or litigation currently exist, there can be no assurance that in the future, the Group will not need to commence, or otherwise be involved in, further disputes or litigation related to the recovery of VAT, or that any such disputes or litigation will ultimately be successful in recovering the applicable VAT. If any of these risks materialise, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

RISKS RELATING TO MIT

The Group may not be able to successfully integrate MIT into its operations.

The success of the MIT Acquisition will depend on the Group's ability to manage the integration of its business and operations into the Group's existing operations. Potential risks relating to that integration may include inconsistent accounting policies and procedures or timetables for preparing financial statements, incompatibility of equipment and information technology, redundancies of personnel, potential disruption to the Group's own business, impairment of relationships with employees and counterparties (including Metalloinvest entities), poor records or internal controls, and difficulty in establishing immediate control over their cash flows. Completing the integration of MIT and addressing any of these or other issues that arise will take a significant amount of time and resources on the part of the Group's management, distracting them from their usual tasks, which may, in addition to the negative effects of the relevant risks or issues on MIT, also have a negative effect on the operation of other parts of the Group's business. Any or all of these risks or issues, if they materialise, could have a material adverse effect on the Group's business, financial condition, results of operations or prospects and the trading price of the GDRs.

MIT has had only one main customer, Metalloinvest.

Prior to the MIT Acquisition, MIT, as wholly-owned by Metalloinvest, provided freight rail transportation services predominantly to that group, with in excess of 80 per cent. of its revenue from freight rail transportation being derived from that customer in the year ended 31 December 2011. After the MIT Acquisition, MIT is currently expected to continue to provide a significant portion of its services to Metalloinvest pursuant to the MIT Freight Service Contracts with Metalloinvest's main production entities. The MIT Freight Service Contracts require the relevant Metalloinvest entity to use MIT to manage the transportation of all of their rail freight cargo in the first year after the completion of the acquisition, and, subject to certain conditions, 60 per cent. of the aggregate Metalloinvest group volumes of rail freight cargo in each of the second and third years after the completion of the acquisition. See also *"—MIT's main customer, Metalloinvest, is only obliged to use MIT's services for one year after the MIT Acquisition"* and *"Material Contracts and Related Party Transactions—Material Contracts—MIT Freight Service Contracts"*. Accordingly, MIT's revenues have historically been, and will continue to be, closely related to Metalloinvest's freight rail cargo volumes, which in turn is dependent on Metalloinvest's levels of production (primarily of iron ore and metal products) and demand from its customers. Any decrease in Metalloinvest's levels of production or demand from its customers would have a corresponding negative impact on MIT's cargo transportation volumes and revenues, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also *"—Risks Relating to the Group's Business and Industry—The Group is dependent on the demand in the Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth in Russia, European countries and elsewhere"*.

MIT's main customer, Metalloinvest, is only obliged to use MIT's services for one year after the MIT Acquisition.

After the MIT Acquisition, pursuant to the MIT Freight Service Contracts, Metalloinvest will be obliged to use MIT to transport all of its freight rail cargo in the first year after the completion of the acquisition at prices specified in those contracts. The MIT Freight Service Contracts also provide that Metalloinvest will use MIT to manage the transportation of at least 60 per cent. of the aggregate Metalloinvest group volumes of freight rail cargo in each of the second and third years after the completion of the acquisition, subject to further agreement between Metalloinvest and MIT concerning the price of the relevant services, which is to be determined by reference to market prices determined by Metalloinvest through a tender among large operators. See also *"—Risks Relating to the Group's Business and Industry—The Group may be subject to increasing competition from other transportation and logistics companies"* and *"Material Contracts and Related Party Transactions—Material Contracts—MIT Freight Service Contracts"*. There can be no assurance that the prices determined by Metalloinvest in the tender processes for the second and third year will be acceptable to MIT, and MIT may choose not to exercise its right to require Metalloinvest to use its services for those years. In such a case, MIT may not transport the relevant percentage of Metalloinvest's freight rail cargo in the second and/or third years after the completion of the acquisition, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The MIT Freight Service Contracts may not be profitable.

Pursuant to the MIT Freight Service Contracts, Metalloinvest is obliged to use MIT to transport certain percentages of its freight rail cargo volumes, as described in *"—MIT's main customer, Metalloinvest, is only obliged to use MIT's services for one year after the MIT Acquisition"*. MIT is also obliged to provide railcars to transport those volumes. Such volumes are expected to be significant and will require a large number of railcars, significantly beyond the size of MIT's own fleet. In the past, MIT has dealt with this by leasing additional railcars and subcontracting the transportation of some of these volumes to third parties. For example, in 2011, approximately 62 per cent. of MIT's aggregate Transportation Volume was transported using Engaged Fleet (including for some part, the Group). After the MIT Acquisition, the Group plans to continue to follow a similar approach, with MIT continuing to subcontract out a significant portion of the volumes required. The Group believes that, in doing so, the overall margins realised will be significantly lower than if MIT was able to provide sufficient railcars from its Owned Fleet, due to the higher anticipated cost of leasing-in additional railcars and subcontracting services to third-parties. In particular, margins may be negatively affected and losses may be incurred where the terms of the leased-in railcars do not match the periods required to service the Metalloinvest volumes, or the leased-in rates or subcontractors' rates are higher than the tariff specified in the MIT Freight Service Contracts due to changes in market demand or other factors. Accordingly, there can be no assurance that MIT or the Group will be able to lease-in additional railcars or subcontract out the volumes in excess of the capacity of its own fleet, or to do so at rates which make the MIT Freight Service Contracts profitable. If the services provided under the MIT Freight Service Contracts are not profitable or are loss making, the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs could be materially adversely affected.

Certain of MIT's key employees may return to the vendor's group within three months of the completion of the MIT Acquisition.

Under the terms of the MIT Acquisition, Metalloinvest is contractually permitted to hire certain key employees of MIT in the first three months after the date of the MIT Acquisition Agreement (as defined below). See *"Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition Agreement"*. Accordingly, if these employees decide to resign and return to Metalloinvest or otherwise during such initial transitional period of three months, the Group will need to hire skilled personnel to fill these vacant positions. The pool of labour with appropriate freight rail transportation and management expertise in Russia is limited and the Group may find it difficult to find replacement personnel, particularly in the relatively short period remaining to do so. Further, the level of compensation required to attract replacement personnel may be significantly higher than the amount previously paid for those positions. If the Group is unable to recruit appropriate personnel in the time remaining, MIT's business may be without key management and technical staff. This may affect its operational and financial performance significantly, which in turn, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

MIT has had high rates of employee turnover.

In recent years, MIT has had relatively high rates of employee turnover. MIT's business is substantial and requires a significant number of trained employees to operate efficiently. While MIT has sought to hire sufficiently skilled employees and/or to train employees to sufficient standards to maintain its operations, there can be no assurance that this will always be possible in the future if the high rate of employee turnover continues. Further, MIT may face difficulties replacing departing personnel, particularly as the Russian economy continues to grow after the recent economic downturn in 2008-2009 and competition for skilled labour increases. See also *"—Risks Relating to the Group's Business and Industry—The Group may be adversely affected by wage increases in Russia"*. A continuation of MIT's high employee turnover and any inability to hire and retain additional qualified personnel could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs.

Metalloinvest may develop a competing freight rail transportation business using former key employees of MIT.

As described under *"—Certain of MIT's key employees may return to the vendor's group within three months of the completion of the MIT Acquisition"*, certain key employees of MIT may be hired by Metalloinvest in the three months after the completion of the MIT Acquisition. These employees have an in-depth knowledge of the freight rail transportation business, developed from years of running MIT. They also have valuable industry knowledge and relationships with Metalloinvest and potential suppliers. The terms of the MIT Acquisition do not prevent the vendor (or others in the Metalloinvest corporate group) from starting another freight rail transportation business using those personnel or otherwise. If this were to occur, the resulting business would likely be a direct competitor to MIT and the Group, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs. See also *"—Risks Relating to the Group's Business and Industry—The Group may be subject to increasing competition from other transportation and logistics companies"*.

MIT may have weaknesses in its internal controls.

In addition to the risks discussed at *"—Risks Relating to the Group's Financial Condition—The preparation of the Group's EU IFRS financial statements are subject to certain risks"*, which also apply to MIT, MIT's internal controls in other parts of its business may have weaknesses. As the MIT Financial Statements were prepared prior to the MIT Acquisition, the Group is not in a position to assess the effectiveness or otherwise of MIT's internal systems and controls. Accordingly, there can be no assurance that the Group will not find material weaknesses in MIT's internal systems and controls. In such a case, significant managerial time and other resources may be required to investigate, evaluate and remedy any such weaknesses, and may give rise to significant costs to upgrading existing information technology or other management and control information systems or procedures, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the trading price of the GDRs.

RISKS RELATING TO THE GROUP'S FINANCIAL CONDITION

The Group's indebtedness could adversely affect the Group's operational and financial condition.

The Group has significant indebtedness, including borrowings from banks and other third parties and non-convertible bond issues, and the terms of such indebtedness contain certain restrictive covenants and require the Group to maintain certain financial ratios. In connection with the MIT Acquisition and its recent purchases of railcars, the Group recently incurred a significant amount of additional indebtedness and entered into new borrowing arrangements. See *"Summary—MIT Acquisition"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources"*. Among other things, the Group's indebtedness could potentially: (a) limit its ability to obtain additional financing and refinance existing indebtedness; (b) limit its flexibility in planning for, or reacting to, changes in the markets in which it competes; (c) place it at a competitive disadvantage relative to its competitors with lower levels of indebtedness; (d) render it more vulnerable to general adverse economic and industry conditions; (e) require it to dedicate a substantial part of its cash flow to service its borrowings; or (f) in the event of enforcement of any security relating to the indebtedness, it could result in a loss of certain of its assets.

The Group's ability to comply with its financial covenants and make payments on its indebtedness depends upon its ability to maintain its operating performance at a certain level, which is subject to general economic and market conditions and to financial, business and many other factors, some of which the Group cannot control. For example, significant Rouble devaluation between September 2008 and February 2009 resulted in technical breaches of certain restrictive covenants in the Group's loan agreements and the need to obtain waivers of such breaches from the relevant lenders. While the Group has been successful in obtaining waivers when needed, there can be no assurance that the Group would not need to seek waivers of potential breaches and defaults under its financing agreements in the future or that its creditors will grant such waivers. If the Group's cash flow from operating activities becomes insufficient, the Group may be required to take certain actions, including delaying or reducing capital or other expenditures, selling its properties or other assets or seeking additional equity capital in an attempt to restructure or refinance its indebtedness. The Group may be unable to take any of these actions on favourable terms or in a timely manner. Furthermore, such actions may not be sufficient to allow the Group to comply with its financial covenants or service its borrowing obligations in full and, in any event, may have a material adverse effect on its business. A substantial portion of the Group's rolling stock is financed by finance leases or pledged to support certain of the Group's indebtedness. In addition, certain of the Group's facilities require TIHL to maintain a specified shareholding in the Company. Compliance with this requirement is outside the Company's control. If the Group cannot service its debt or refinance its existing debt as it comes due or remain in compliance with its covenants, such failure could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group's growth strategy requires significant funding.

The business of freight rail transportation and logistics is capital-intensive. The Group plans to finance its future growth plans through cash generated from its operations and will augment such cash with the proceeds of external borrowings and the issuance of equity, including the proceeds of the Offering. If the Group is not able to obtain adequate funding for its growth or if such funding is only available on commercially unfavourable terms due to the Company's credit rating being downgraded or otherwise, this could limit future growth and have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group is subject to foreign exchange risk.

Currently, a significant portion of the Group's borrowings is denominated in US Dollars, whereas most of the Group's expenses and revenue are and will be denominated and settled in Roubles. See *"Management's*

Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources". The Group does not hedge these foreign exchange risks. In addition, although the functional currency of the Company, its Cypriot subsidiaries and its Russian subsidiaries is the Rouble and the functional currency of the Company's Estonian subsidiaries is the Euro, it reports in US Dollars. Accordingly, fluctuations in the Rouble/US Dollar exchange rate and the Euro/US Dollar exchange rate can have a significant effect on the Group's reported results of operations and financial position from period to period. The Group is therefore exposed to the effects of currency fluctuations between the US Dollar and the Rouble and the US Dollar and the Euro. Such fluctuations have been significant in recent years. The Group's exposure to such fluctuations could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group may be subject to interest rate risk.

Because the Group enters into floating rate lease and long-term borrowing contracts from time to time in order to finance the purchase of rolling stock as well as the MIT Acquisition, the Group's income and operating cash flows are exposed to changes in market interest rates arising from such lease liabilities and borrowings. See also *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources"*. In addition, the Group is exposed to increases in interest rates when its fixed rate liabilities are refinanced. As a result, an increase in interest rates could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group may be subject to credit risk.

The Group's business is heavily dependent upon a small number of key customers and their suppliers. In addition, although the Group in certain circumstances receives prepayments for its services, in other circumstances, it invoices after the service is rendered, including for reimbursement for amounts paid to Russian Railways for infrastructure and locomotive services. To the extent the Group's customers experience financial difficulties which lead to failures or delays in the payment or reimbursement of obligations, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

The Company is a holding company and operates entirely through its subsidiaries. As a result, the Company's financial condition depends almost entirely on the financial condition of its subsidiaries. The Company is dependent upon dividends and other payments, including by way of loans, from its subsidiaries to generate the funds necessary to meet its financial obligations, including the payment of dividends, if any, on its shares and the payment of principal and interest on any of its borrowings incurred in the future. The Company's subsidiaries may from time to time be subject to restrictions on their ability to make such payments to the Company as a result of regulatory, fiscal and other restrictions. In addition, dividend payments by the Company's Russian subsidiaries, if made, are subject to withholding tax in Russia. The retained earnings of the Group's subsidiaries, AS Spacecom and AS Spacecom Trans (together, the ***Estonian Subsidiaries***) are not taxed. Under the Estonian tax system, only distributed profits, including implicit profit distributions such as fringe benefits, non-business expenses, transfer pricing adjustments, gifts and donations, are taxable at a flat rate of 21 per cent. on the gross amount of profit distribution. There can be no assurance that such restrictions and taxes will not have a material adverse effect on the Company's ability to pay dividends or to service its borrowings or meet any other costs it may incur, or that the Company will receive sufficient funds from its subsidiaries to meet its financial obligations. In addition, due to the holding structure of the Group, any claim against the Company (including a claim by its shareholders upon liquidation) will be subordinated to the claims against its subsidiaries. The Company could also be liable for the debts of its effective subsidiaries in certain cases (see *"—Risks Relating to Russia and Other Emerging Markets—Legislative and Legal Risks—Shareholder liability under Russian corporate law could cause the Company to become liable for the obligations of its subsidiaries"*). If any of the above occurs, it could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The preparation of the Group's EU IFRS financial statements are subject to certain risks.

Each of the Company's Russian subsidiaries prepares financial statements under Russian accounting standards. The preparation of consolidated EU IFRS financial statements for the Group involves, first, the transformation of the statutory financial statements of these companies into EU IFRS financial statements through accounting adjustments and, second, the consolidation of all such financial statements. This process is complicated and time-consuming, and requires significant attention from the Group's senior accounting personnel. Particularly in light of the Group's growth, the preparation of annual or interim EU IFRS financial statements may require more time than it does for other companies. In addition, this process may be more difficult following the MIT Acquisition as MIT may not be familiar with the Group's standards, procedures and timetables, or may not have the accounting personnel or other resources or skills sufficient to enable it to meet those standards, procedures or timetables. Historically, MIT has used accounting policies which differ in some respects to those used by the Group, and which will need to be conformed to EU IFRS accordingly for future reporting periods. Accordingly, the Group may be required to recruit additional qualified personnel with EU IFRS accounting expertise. Because there is a limited pool of such personnel in Russia, it may be difficult for the Group to hire and retain such personnel. In addition, the Group is dependent upon Russian Railways for the provision of certain information required for the preparation of its financial statements, which creates a risk of delays in producing the Group's EU IFRS financial statements in the future. Notwithstanding these risks, the Group believes that its financial systems are sufficient to ensure compliance with the requirements of the FSA Disclosure and Transparency Rules for a GDR listed company.

RISKS RELATING TO RUSSIA AND OTHER EMERGING MARKETS

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

General

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

Investors in emerging markets, such as the Russian Federation and other countries of the former Soviet Union (***FSU***), should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. Moreover, during times of financial crisis companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn. The risk factors below focus on risks in Russia but many of them are also applicable to other countries of the FSU.

The European sovereign debt crisis of 2011 and 2012 so far has had relatively limited impact on the Russian economy since it has not led to significant declines in the prices of Russia's key exports (which are mainly natural resource commodities, including oil and gas) as well as due to Russia's relatively healthy public finances including a low debt to GDP ratio, relatively small budget deficit, and high levels of foreign currency reserves. Should the ongoing crisis lead to a significant worsening of the global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the short and medium term could also be negatively affected.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and prospective investors are urged to consult with their own legal and financial advisors before making an investment in the GDRs.

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

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

Political risks

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

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

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which had a negative effect on Russia's business and investment climate. Over the past two decades the course of political, economic, regulatory and other reforms has, in some respects, been uneven and the composition of the Russian government has, at times, been unstable.

On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in the Russian Federation. The structure of political forces in the State Duma did not change substantially and Vladimir Putin was elected as president. While the Russian political system and the relationship between the Russian President, the Russian government and the State Duma currently appears to be stable, future political instability could result either from an economic downturn, a decline in standards of living, political disagreements or unrest, change in government policy or otherwise.

In addition, shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Any significant change in, or suspension of, the Russian government's programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to a deterioration in Russia's investment climate. This could have a material adverse effect on the value of investments relating to Russia and as such on the Group's business, its ability to obtain financing in the international markets and hence its financial condition or prospects, and the trading price of the GDRs.

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

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

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

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

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflicts and terrorist attacks. If such tensions escalate, significant political consequences could arise, including the imposition of a state of emergency in some or all regions of Russia. Moreover, military conflicts and/or terrorist attacks and the resulting heightened security measures could cause disruptions to domestic commerce of Russia and other involved countries as well as lead to stock market volatility. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. More recently, suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in the aggregate.

Historically, natural disasters have adversely affected the global and Russian economy and financial market. For example, in July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer drought and record high temperatures, resulted in a decline in the Russian harvest, and accordingly, an increase in demand for imported grain, reported to be Russia's largest import demand for over ten years. The costs associated with controlling and reducing the fires, addressing environmental concerns and repairing the damage caused by the fires may have had an adverse effect on the Russian economy.

Further such conflicts, tensions, terrorist attacks or natural disasters could have a material adverse effect on economic confidence and the investment environment in Russia generally, which in turn, could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Economic risks

Economic instability in Russia and other markets in which the Group operates could harm the Group's business and investment plans.

From 2000 until the first half of 2008, Russia experienced rapid growth in its GDP, higher tax collections and increased stability of the rouble, providing some degree of economic soundness. However, the Russian economy was adversely affected by the global financial and economic crisis that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reductions in foreign investment and sharp decreases in GDP around the world. While the Russian economy has strengthened in 2010 and 2011, any economic reversal is likely to have a negative impact the Group's profitability. Any of the following risks, which the Russian economy has experienced at various times in the past and some of which occurred during the financial and economic crisis, may have a significant adverse effect on the investment climate in Russia and, in turn, may be a significant burden on the Group's operations:

- significant declines in its GDP;
- high levels of inflation;
- increases in, or high, interest rates;
- sudden price declines in the natural resource sector;
- instability in the local currency market;
- high levels of government debt relative to GDP;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- widespread tax evasion;
- growth of a black and grey-market economy;
- widespread use of barter and non-liquid bills in settlements for commercial transactions;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- political and social instability;
- dependence of the economy on exports of commodities;
- significant declines and volatility in the stock market;
- significant increases in unemployment and underemployment;
- the impoverishment of a large portion of the Russian population; and
- outdated and deteriorating physical infrastructure.

The Russian economy has been subject to other abrupt downturns in the past. For example, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies and resulted in the widespread loss of bank deposits. In addition, as Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases.

In late 2008, at the outset of the global economic downturn, the Russian government announced plans to institute more than USD 200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. However, these measures had a limited effect, although there has been some improvement, and the Russian economy has not yet fully recovered from the economic downturn. In the 2008-2009 period, the impact of the global financial and economic crisis on the Russian economy led to, among other things, several suspensions of trading on MICEX and RTS by market regulators, a reduction in Russian GDP and the disposable income of the general population, a severe impact on bank liquidity, a significant devaluation of the Rouble against the US Dollar and Euro, a sharp decrease in industrial production and a rise of unemployment. In December 2008, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the financial and economic crisis that began in the second half of 2008. Moody's Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. In January 2010 Fitch, however, changed the outlook from negative to stable. In October 2011, Moody's Investors Service adjusted its ratings outlook for the Russian banking system from "stable" to "negative". The change reflected concerns that market volatility was weakening Russia's operating environment. In January 2012, Fitch revised its outlook for the Russian Federation from positive to stable based on perceived increased political uncertainty and global economic outlook. In March 2012, Fitch announced it may further lower the Russian sovereign credit rating if the Russian government does not restrict its budget policy and fails to limit expenditure.

There can be no assurance that a future economic crisis will not have a negative effect on investors' confidence in the Russian markets or economy or the ability of Russian-based groups to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian economy. Any deterioration in the general economic conditions in Russia could adversely influence the level of demand for the Group's services, and therefore could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Instability of global financial markets could affect the Russian economy and the Group.

The financial markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the summer of 2008. As a result of these developments, there is an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions, which has significantly reduced the liquidity in the global financial system.

Since March 2009, international private credit markets have started to improve. However, significant government borrowing to finance recapitalisation of financial and other institutions, as well as substantial fiscal stimulus packages, have led to a deterioration of sovereign credit. As a result, global credit and capital markets continue to be fragile and suffer from occasional crises of confidence, and there can be no assurance that the disruptions in the global capital and credit markets such as, in particular, the Dubai real estate crisis that commenced in November 2009 or the Greek fiscal crisis that started in April 2010 and then flared again in the summer of 2011 and questions regarding the financial stability of other EU nations (particularly Italy, Spain, Ireland and Portugal), could not be amplified or replicated elsewhere on a more significant scale in the near future.

Russia's economy was adversely affected by the global financial and economic crisis in 2008-2009 and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. In particular, the disruptions in the global financial markets have had a severe impact on the liquidity of Russian entities, the availability of credit and the terms and cost of domestic and external funding for Russian entities. This could adversely influence the level of customer demand for various services, including those provided by the Group.

These developments, as well as adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment, or a decline in oil, gas or other commodities prices (such as, for example, steel or precious metals) could slow or disrupt the Russian economy and adversely affect the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

Russia produces and exports large quantities of crude oil, natural gas and other mineral resources, which makes the Russian economy particularly vulnerable to fluctuations in the world markets in the prices of commodities. Russian freight rail volumes are vulnerable to fluctuations in demand for such resources, particularly those related to the metallurgical industry. A sustained decline in the price of, or demand for, certain Russian commodities, or the imposition of restrictions on Russian products by principal export markets, could slow or disrupt the Russian economy and cause freight rail volumes to decline. In addition, instability in other markets (whether developed or emerging), including the instability resulting from a global economic and financial crisis similar to that experienced in 2008-2009, may affect investor sentiment towards Russia. Such developments could affect economic conditions in Russia and could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

Inflation could increase the Group's cost base.

The Russian economy has recently been characterised by high rates of inflation. The inflation rate for the first three months of 2012 was 1.5 per cent., and the annual inflation rate was 6.1 per cent. in 2011, 8.8 per cent. in 2010 and 8.8 per cent. in 2009, according to Rosstat. Certain of the Group's costs, such as maintenance costs, operating lease costs and, in particular, wages, are sensitive to rises in general price levels in Russia. However, due to competitive pressures, if the Group's costs continue to increase the Group may not be able to pass along the costs to its customers. Accordingly if high rates of inflation continue, there can be no assurance that the Group will be able to maintain or increase its margins to cover such cost increases, which could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained since then. Russia's poor infrastructure disrupts the transportation of goods and supplies as well as communications and adds costs to doing business in Russia. Particularly affected are the rail and road networks, power generation and transmission, communication systems, and building stock. Electricity and heating shortages in some of Russia's regions have seriously disrupted local economies. For example, in May 2005, an electricity blackout affected much of Moscow and some other regions in the central part of Russia for a full day, disrupting normal business activity. Other parts of the country face similar problems. Furthermore, in August 2009, an accident occurred at the Sayano-Shushenskaya Hydroelectric Power Plant in southern Siberia, the largest such plant in Russia in terms of installed capacity, when water from the Yenisei River flooded the turbine and transformer rooms at the power plant's dam, killing more than 70 people and causing billions of Roubles in damage. As a result of the accident, the plant halted power production, leading to temporary power shortages for both residential and industrial consumers.

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

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

The Russian banking system remains under-developed.

Russia's banking and other financial systems are not well developed, and Russian legislation relating to banks and bank accounts may be subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the inter-bank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Russian government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil.

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

Prior to the global financial and economic crisis in 2008-2009, there had been a rapid increase in lending by Russian banks, which many believe was accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market was leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which further deteriorated the risk profile of Russian bank assets.

The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. Another banking crisis, or the bankruptcy or insolvency of the banks which hold the Group's funds, could result in the loss of its income for several days or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Furthermore, any shortages of funds or other disruptions to banking experienced by the Group's banks from time to time could also have a material adverse effect on the Group's ability to complete its planned developments or obtain finance required for its planned growth and thus have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Social risks

Social instability, including that caused by worsening economic conditions, turmoil in the Russian financial markets or differing political views, could lead to labour and social unrest.

The past failures of the Russian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest. Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as occurred as a result of the global financial and economic crisis in 2008-2009, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. These conditions have already lead to a certain amount of labour and social unrest that may continue or escalate in the future. Labour and social unrest could have political, social and economic consequences, such as increased support for a renewal of centralised authority; increased nationalism, with support for re-nationalisation of privatised property, or expropriation of or restrictions on foreign involvement in the economy of Russia; and increased violence.

In addition, following the State Duma elections held on 4 December 2011 and the presidential elections held on the 4 March 2012, Moscow, St. Petersburg and some other major urban centres in Russia experienced protests from supporters of opposition parties alleging irregularities in those elections, and supporters of the incumbent political party, on a scale not seen in Russia for many years. Although the structure of political forces in the State Duma did not change substantially and the election of Mr. Putin as president again is a sign of continuity in Russian politics, it is still unclear if these protests, or politically related social unrest more generally, will continue or escalate in the future.

Any of these could have an adverse effect on confidence in Russia's social environment and the value of investments in Russia, could restrict the Group's operations and lead to a loss of revenue, and could otherwise have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

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

Legislative and legal risks

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

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

- the existence of inconsistencies between: (a) federal laws; (b) decrees, orders and regulations issued by the President, the government and federal ministers; and (c) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;

- the relative unavailability of Russian legislation and court decisions in an organised manner that facilitates the understanding of such legislation and court decisions;
- the relative inexperience of judges and courts in interpreting legislation in accordance with new principles established under reformed statutes;
- the existence of substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and the governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of governmental authorities, leaving significant opportunities for arbitrary and capricious government action; and
- bankruptcy procedures that are not well developed and subject to abuse.

Legislation relating to disclosure and reporting requirements and anti-money laundering legislation have only recently been enacted in Russia. The concept of fiduciary duties being owed by management or directors to their companies or shareholders is relatively new to Russian law. Violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

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

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

All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

Most of the Company's operating subsidiaries are organised and existing in Russia and hold most of their assets in Russia. Accordingly, corporate actions by such companies, and the rights of the Company as their controlling shareholder, are subject to mandatory rules of Russian corporate law. Corporate governance standards in Russia and certain other jurisdictions where the Group has subsidiaries are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights.

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

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

The Civil Code, Federal Law No. 208-FZ "On Joint Stock Companies" dated 26 December 1995, as amended (the ***Joint Stock Companies Law***), and Federal Law No. 14-FZ "On Limited Liability Companies" dated 8 February 1998, as amended (the ***LLC Law***), provide that shareholders in a Russian joint stock company or participants in a Russian limited liability company generally are not liable for that company's obligations and bear only the risk of loss of their investment. Additional shareholder liability may arise, however, if one person (the ***Effective Parent***) can give binding instructions to another person (the ***Effective Subsidiary***). The Effective Parent bears joint and several liability for transactions concluded by the Effective Subsidiary in carrying out business decisions if:

- the Effective Parent's decision-making capability is provided for in the charter of the Effective Subsidiary or in a contract between the Effective Parent and the Effective Subsidiary; and
- the Effective Parent gives binding directions to the Effective Subsidiary.

Moreover, an Effective Parent is secondarily liable for an Effective Subsidiary's debts if the Effective Subsidiary becomes insolvent or bankrupt as a result of the action or inaction of the Effective Parent. The Effective Parent's liability will be triggered if it has exercised a possibility to give binding instructions to the Effective Subsidiary knowing that this could result in Effective Subsidiary's insolvency. Similarly, other shareholders of the Effective Subsidiary may claim compensation for the Effective Subsidiary's losses from the Effective Parent that causes the Effective Subsidiary to take action or fail to take action knowing that such action or failure to take action would result in losses.

The Company could be found to be the Effective Parent of its subsidiaries, in which case it could become liable for their debts, which could have a material adverse effect on its business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

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

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

Russian law requires, in accordance with Russian Accounting Standards, a limited liability company or a joint stock company to be liquidated if the value of its net assets is lower than the minimum amount of its charter capital specified by Russian law as at the end of the second year following incorporation. If such a company fails to bring itself into compliance with this requirement within a reasonable period of time, a court may order its liquidation. As at the end of 2002, one of the Company's principal subsidiaries, Sevtekhnotrans LLC (***Sevtekhnotrans***), had negative net assets and therefore it breached the Russian law requirement described above. Sevtekhnotrans remedied the situation within a year and the three-year statute of limitations for any action by the tax authorities has passed. However, there is precedent of politically motivated actions in Russia and accordingly there is a possibility that the Russian tax or other authorities, and/or third parties, could apply to order Sevtekhnotrans to be put into liquidation, although there is a certain amount of judicial support for the view that, in considering such an application, the courts should look beyond the fact of formal non-compliance and take into account other factors regarding whether the liquidation would be an appropriate sanction for such violations (see *"—A Russian legal entity may be liquidated on the basis of formal non-compliance with certain requirements of Russian law"* above). Any order for the liquidation of Sevtekhnotrans could lead to the loss of rights to its properties and have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

The Group could be subject to arbitrary government action.

Government authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that may not be in full accordance with the law or that may be influenced by political or commercial considerations. Moreover, government authorities also have the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate such issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's, a division of McGraw Hill Companies, Inc., has expressed concerns that

"Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, the Group's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Although arbitrary, selective or unlawful government action may be challenged in court, such action, if directed at the Group or its shareholders, lead to termination of contracts, civil litigation, criminal proceedings and imprisonment of key personnel, any of which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

Russian legislation may not adequately protect against expropriation and nationalisation.

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

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

The concept of property rights is not well developed in Russia and there is little experience in enforcing legislation enacted to protect private property against expropriation or nationalisation. An anti-privatisation lobby still exists within the Russian parliament. Accordingly, there can be no assurance that legislation protecting private investments will not be withdrawn. In addition, land may be subject to compulsory purchase by the state for its own needs or as a sanction for the inappropriate use of that land. It is not clear from Russian law how losses from nationalised assets would be calculated nor whether there would be any way to seek to challenge (and therefore to prevent) the confiscation of such assets. As a result, the Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian government decides to expropriate or nationalise some or all of the Group's assets. Expropriation or nationalisation of all or a portion of the Group's business, especially without fair compensation, would have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Russian currency regulation has been liberalised but may remain subject to change.

In the 1990s, during a time of adverse economic conditions, the Russian currency control regime was severely restricted. At times, a temporary moratorium was imposed on certain hard currency payments and operations. However, there has been a liberalisation of the currency control regime, with the abolishment of certain currency restrictions from 1 January 2007. Notwithstanding this liberalisation, there can be no assurance that future changes to the Russian exchange control regime will not restrict the Company's ability to repatriate earnings from its subsidiaries to pay dividends or to pay for the general operational expenses of the Company in Cyprus, or otherwise have a negative impact on the development of the Russian capital markets, which could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

Russian regulatory authorities exercise considerable discretion in matters of enforcement and interpretation of applicable laws, regulations and standards, the issuance and renewal of permits and in monitoring compliance with the terms thereof. Compliance with new requirements may be costly and time consuming and may result in delays in the commencement or continuation of the Group's operations. Moreover, any failure by the Group to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon the Group or its subsidiaries and criminal and administrative penalties applicable to officers of the Group's subsidiaries. There can be no assurance that the Group will be able to comply with existing or new requirements and, as a result, the Group may be required to cease certain of its business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions could have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Risks Relating to the GDRs

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

GDR holders have no direct voting rights with respect to the Ordinary Shares represented by the GDRs (including the New GDRs). GDR holders are able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement entered into on 7 May 2008 between the Company and the Depositary (the ***Deposit Agreement***) and relevant requirements of Cypriot law (see *"Terms and Conditions of the Global Depositary Receipts"*). Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders.

Holders of Ordinary Shares receive notice directly from the Company and are able to exercise their voting rights either personally or by proxy. GDR holders, by comparison, do not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company provides notice to the Depositary. The Depositary then, as soon as practicable, at the Company's expense, distributes to GDR holders notices of meetings, copies of voting materials (if and as received by the Depositary from the Company) and a statement as to the manner in which GDR holders may give instructions.

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of Ordinary Shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner.

If the Depositary does not receive timely voting instructions or the instructions it receives are defective, the Holder will be deemed to have instructed the Depositary to give a discretionary proxy to a person appointed by the Company to vote such Ordinary Shares, provided that such discretionary proxy will not be given if the Company does not wish such proxy to be given or if such matter materially and adversely affects the rights of holders of Ordinary Shares. If timely voting instructions are not received and no discretionary proxy is given in respect of such Ordinary Shares, or if the Depositary determines that it is not permissible under Cyprus law or it is reasonably impracticable to vote or cause to be voted the Ordinary Shares, such Ordinary Shares will not be voted.

For further details, see *"Terms and Conditions of the Global Depositary Receipts"*.

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

Sales, or the possibility of sales, by the Company, the Selling Shareholder, EIL or Litten (or by any pledgee of Ordinary Shares or GDRs pledged by the Selling Shareholder, EIL or Litten) of a substantial number of GDRs or Ordinary Shares in the public markets could have an adverse effect on the trading prices of the GDRs as well as the Company's ability to obtain further capital through an offering of equity securities. Each of the Company, the Selling Shareholder (which is expected to own approximately 40.3 per cent. of the Company after the Offering, assuming the Over-Allotment Option is exercised in full), EIL (which is expected to own approximately 8.8 per cent. of the Company after the Offering) and Litten (which is expected to own approximately 2.0 per cent. of the Company after the Offering) has agreed that, until the expiry of a period of 180 days from the Closing Date, neither it nor any person acting on its behalf will, without the prior written consent of the Joint Bookrunners, sell, pledge or encumber the Ordinary Shares (including in the form of GDRs) or, in the case of the Company, issue new Ordinary Shares. The sale of a substantial number of additional GDRs or Ordinary Shares following the Offering, in particular by the Selling Shareholder, EIL or Litten (or a pledgee), or the issuance of new shares by the Company, or the possibility that these sales or issuances may occur, may result in a decline in the price of the GDRs, and investors may not be able to sell the New GDRs they purchased in the Offering at or above the Offer Price or at all. Moreover, the Company may in the future issue new Ordinary Shares or GDRs that have rights, preferences or privileges senior to those of the Ordinary Shares which could negatively affect the price of the GDRs. As a result, investors who purchase New GDRs in the Offering, or GDRs in the secondary market could lose all or part of their investment in such GDRs.

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

Since the Company has its registered office in Cyprus and GDRs representing its ordinary shares are listed on a regulated market in the United Kingdom, the takeover protection regime applicable to the Company is more limited than that applicable to public companies incorporated in the United Kingdom. Any offer for GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the ***City Code***) in respect only of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law will apply to such an offer in relation to substantive company law matters, such as whether such an offer would trigger a mandatory offer to all holders of GDRs.

Holders of GDRs may not be able to exercise their pre-emptive rights in relation to future issues of Ordinary Shares.

In order to raise funding in the future, the Company may issue additional Ordinary Shares, including in the form of additional GDRs. Generally, existing holders of ordinary shares in Cyprus public companies are entitled to pre-emptive rights on the issue of new ordinary shares for cash consideration in that company as described in *"Description of Share Capital and Applicable Cypriot Law"*, though, under certain circumstances, such pre-emptive rights can be disapplied by the majorities described in *"Description of Share Capital and Applicable Cypriot Law"*. At the meeting of the shareholders held on 4 May 2012, the shareholders of the Company voted to disapply pre-emptive rights in conjunction with the placement of up to 75,782,595 Ordinary Shares, which includes the 20,605,383 newly-issued Ordinary Shares represented by New GDRs in the Offering. As a result, until 4 May 2013, holders of GDRs will not be able to exercise pre-emptive rights on any offering of up to 75,782,595 additional Ordinary Shares (or GDRs representing such Ordinary Shares) by the Company unless the shareholders decide otherwise in a general meeting. Holders of GDRs in certain jurisdictions (including the United States) may not be able to exercise pre-emptive rights for ordinary shares represented by GDRs unless the applicable securities law requirements in such jurisdiction (including, in the United States, in some circumstances the filing of a registration statement under the Securities Act) are adhered to or an exemption from such requirements is available. The Company may not adhere to such requirements and an exemption may not be available. Accordingly, such holders may not be able to exercise their pre-emptive rights on future issuances of Ordinary Shares, and, as a result, their percentage ownership interest in the Company would be reduced.

The price of the GDRs may be highly volatile.

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

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

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

RISKS RELATING TO TAXATION

Taxation risks relating to Russia

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

Generally, Russian companies pay relatively substantial taxes, which are imposed at the federal, regional and local levels, and include, among other things, corporate profits tax, VAT, property tax and payroll-related mandatory contributions. Laws related to these taxes, such as the Russian Tax Code, have been in force for a short period of time relative to tax laws in more developed market economies, and the Russian government's implementation of these laws is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continual amendments to the tax laws and varying interpretations by different authorities and in the imposition of new taxes in an attempt to increase revenue. Although the quality of the Russian tax legislation has generally improved with the introduction of the Russian Tax Code, the possibility exists that the Russian government may impose arbitrary or onerous taxes and penalties in the future.

Russian federal, regional and local tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent enforcement. Russian law and legal practice is not as clearly established as the legal systems of most western countries and there are a number of practical uncertainties in the application of the tax legislation and related provisions. Some of these uncertainties are of a general nature, whereas others relate specifically to companies operating in the transportation industry. Differing interpretations of tax regulations exist both among and within government bodies at the federal, regional and local levels, increasing the number of uncertainties and leading to inconsistent enforcement procedures. The Russian tax system is further impeded by the fact that, at times, it continues to be characterised by inconsistent judgments of local tax authorities and the failure by the tax authorities to address many of the existing problems.

There are no clear rules or court practice for distinguishing between lawful tax optimisation and tax evasion. Furthermore, taxpayers, the Russian Ministry of Finance and the Russian tax authorities often interpret tax laws differently. The current practice is that private clarifications to specific taxpayers' queries with respect to particular situations issued by the Russian Ministry of Finance are not binding on the Russian tax authorities and there can be no assurance that the Russian tax authorities will not take positions contrary to those set out in such clarifications.

Over the past several years, the tax authorities have shown a tendency to take a more assertive position in their interpretation of legislation which has led to an increased number of material tax assessments as a result of company tax audits operating in various industries. In particular, in some instances the Russian tax authorities have applied new interpretations of tax laws retroactively. As taxpayers and the Russian tax authorities often interpret tax laws differently, taxpayers frequently resort to court proceedings to defend their position against the tax authorities. Specifically, during the last few years the tax audits carried out by local tax officials have resulted in several material claims against major Russian companies. Furthermore, at the judicial level, there is no established precedent or consistent court practice in respect of these issues. In the absence of the binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

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

According to the Constitution of the Russian Federation, laws which introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. However, there have been several instances when such laws were introduced and applied retroactively. There can therefore be no assurance that the Tax Code will not be changed in the future in a manner that will adversely affect the relative stability and predictability of the Russian tax system.

Despite the Russian government taking steps to reduce the overall tax burden on taxpayers in recent years, the tax authorities challenge certain structures, arrangements and transactions of taxpayers which have not been challenged or litigated in prior tax audits. Russian subsidiaries of the Company may, therefore, be subject to greater than expected tax burdens. Additionally, taxes have been used as a tool for significant state intervention in certain key industries. See *"—Risks Relating to Russia and Other Emerging Markets—Legislative and Legal Risks—The Group could be subject to arbitrary government action".*

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with a more developed tax system. In addition, there can be no assurance that the current tax rates will not increase, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In general, it is expected that Russian tax legislation will become progressively more sophisticated. The introduction of new taxes, amendments to current taxation rules or changes in approaches to their interpretation may have a substantial impact on the overall amount of tax liabilities of the Group. There is no assurance that the Group would not be required to make substantially larger tax payments in the future. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning, business and operations, financial condition or prospects and the trading price of the GDRs, potentially exposing it to significant additional taxes, fines and penalties and enforcement measures.

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

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

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

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

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

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

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

Ruling No. 53 has not yet been the subject of extensive judicial interpretation or consideration by the tax authorities or courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the Ruling was to combat abuse of tax law, based on cases relating to this Ruling, which were brought to courts to date, the tax authorities have started applying the "unjustified tax benefit" concept in a broader sense than may have been intended by the Plenum of the Supreme Arbitration Court. To date in the majority of cases where this concept was applied the courts ruled in favour of taxpayers; however, there is no assurance that the courts will follow these precedents in the future. Furthermore, Ruling No. 64 of the Plenum of the Supreme Court of the Russian Federation of 28 December 2006 "Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes" is indicative of a trend to broaden the application of criminal liability for tax violations. In its decision of 26 July 2001, the Constitutional Court of the Russian Federation introduced the concept of "a taxpayer acting in a bad faith" without clearly stipulating criteria for its application. Similarly, this concept is not defined in Russian tax law. Nonetheless, the concept has been used by the tax authorities in practice in order to deny, for instance, the taxpayer's right to rely on the letter of the tax law. The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

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

Furthermore, there is a new legislative initiative aimed to decrease the number of tax avoidance schemes. In March 2012, the Russian Federal Tax Service prepared and proposed for consideration to the Russian Ministry of Finance and the Russian Ministry of Economic Development a draft law which proposes certain amendments to the Russian Tax Code and the model double tax treaty adopted by the Russian Government. These draft amendments to the Russian Tax Code (which is referred as the "controlled foreign companies" rule) are aimed at discouraging transactions with offshore jurisdictions. In particular, the draft law introduces the concept of an ultimate beneficiary of an organisation and states that expenses incurred by the Russian taxpayers from their operations with foreign companies located in offshore jurisdictions (the list of which is provided by the Russian Ministry of Finance) should be treated as non-deductible expenses for Russian profits tax purposes; and simultaneously, the amount of such expenses should be treated as taxable income for Russian profits tax purposes. The Russian Government in its Main Directions of the Russian Tax Policy for 2013 and Planned for 2014-2015 also expressed its intention to introduce the "controlled foreign companies" rule into the Russian Tax Code. It is currently unclear how and when these amendments will be enacted (if at all) and to what effect these provisions may have on the Group. The imposition of additional tax liabilities as a result of the application of the "controlled foreign companies" rule to transactions carried out by the Group may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and trading price of the GDRs.

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

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

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

Only the amount of the income of a foreign entity that is attributable to its permanent establishment should be subject to taxation in Russia. Pursuant to the new transfer pricing rules (discussed below), such amount of income is to be measured based on the functions carried out by a Russian permanent establishment, accepted economic (commercial) risks attributable to such activity and the assets deployed. In order to determine the amount of income of a foreign entity that is attributable to a permanent establishment in Russia, the Russian tax authorities may perform a functional analysis of an activity performed by a foreign entity in the territory of Russia. However, the practice of application of these rules is not developed since such approach was introduced from 1 January 2012. There is, therefore, a risk that the tax authorities might seek to assess Russian tax on the entire amount of income of a foreign company. Recent events in the Russian Federation suggest that the tax authorities may be more actively seeking to investigate and assert that foreign entities operate through a permanent establishment in Russia. Having a permanent establishment in Russia may also lead to other adverse tax implications, including challenging a reduced withholding tax rate under an applicable double tax treaty, potential effect on VAT and property tax obligations, etc. There is also a risk that penalties could be imposed by the tax authorities for the failure to register a permanent establishment with the Russian tax authorities.

Any such taxes or penalties could have a material adverse effect on the Group's business, operating results, financial condition or prospects and the trading price of the GDRs.

It should also be noted that Russian tax legislation does not currently have a concept of tax residency for legal entities. However, the Russian government in its Main Directions of Russian Tax Policy for 2008-2010 has proposed the introduction of the concept of the tax residence for legal entities under domestic tax law, in particular, for the purposes of avoidance of tax evasion. The same suggestion has been made by the Russian Government in the Main Directions of Russian Tax Policy for 2013 and Planned for 2014-2015. It has been proposed to determinate the tax residency of legal entities based on a number of criteria similar to those used in double tax treaties concluded by the Russian Federation. It is currently unclear when and how (if at all) such changes will be introduced and how they might affect the Group. In case such changes are introduced into the Russian legislation, there is a risk that non-Russian companies of the Group may potentially be treated as Russian tax residents and as such may be subject to taxation in Russia. It is conceivable, therefore, that, if enacted, these amendments may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Russian transfer pricing rules may adversely affect the Group's business, financial condition and results of operations.

Russian transfer pricing legislation which was effective before 1 January 2012 was broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts, and there was limited guidance as to how these rules should had been applied. Moreover, in the event that a transfer pricing adjustment was made by the tax authorities, the transfer pricing rules did not provide for a corresponding adjustment to the related counterparty in the relevant transaction.

New Russian transfer pricing legislation was introduced by Federal Law No. 227-FZ dated 18 July 2011 and became effective on 1 January 2012. The list of the "controlled" transactions under this new law includes transactions with related parties and certain types of cross-border transactions. This new law shifts the burden of proving market prices from the tax authorities to the taxpayer. Although the law is supposed to be in line with international transfer pricing principles developed by the OECD, there are some irregularities of how these principles are reflected in the local rules. Special transfer pricing rules continue to apply to transactions with securities and derivatives. It is currently difficult to evaluate what effect these new provisions may have on the Group. However, the new transfer pricing legislation could have a considerable impact on the Group's tax position.

Accordingly, due to uncertainties in the interpretation of Russian transfer pricing legislation which was in effect before 2012 and the recently introduced new transfer pricing legislation, no assurance can be given that the tax authorities will not challenge the Group's prices and make adjustments which could affect the Group's tax position unless the Group seeks to refer to market prices with respect to related party transactions. The imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

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

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

The Russia-Cyprus double tax treaty allows reduction of the withholding tax rate applicable to dividends paid by a Russian company to a Cypriot company down to 10 per cent. provided that the following conditions are simultaneously met: (i) the Cypriot company is a tax resident of Cyprus within the meaning of the Russia-Cyprus double tax treaty; (ii) the Cypriot company is the beneficial owner of the dividends; (iii) the dividends are not attributable to a permanent establishment of the Cypriot company in Russia; and (iv) the treaty clearance procedures are duly and timely performed. This rate can be further reduced to 5 per cent. if the direct investment of the Cypriot company in the Russian company paying the dividends is at least equivalent to USD 100,000 (this amount will be increased to EUR 100,000 from 1 January 2013 when the new protocol to the Russia-Cyprus double tax treaty of 7 October 2010 enters into force).

The Russian President in 2009 announced plans to introduce anti-avoidance mechanisms with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant double tax treaty country. In May 2012, the Russian Government in its Main Directions of Russian Tax Policy for 2013 and Planned for 2014-2015 has proposed certain legislative changes concerning anti-avoidance mechanisms in relation to double tax treaties benefits, including the introduction of a concept of an "actual recipient of income" to the Tax Code. No assurance can currently be given as to whether and when these amendments will be enacted, their exact nature, their potential interpretation by the tax authorities and the possible impact on the Group.

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

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

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

The same Russian withholding tax implications arise when dividends are paid by Russian companies of the Group to the Cypriot subsidiaries of the Company.

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

The Russian Tax Code provides for a zero per cent. VAT rate with respect to services related to the carriage or transportation of exported or imported goods and other similar work (services). However, in practice many Russian transportation service companies face difficulties in application and confirmation of the zero VAT rate on these services due to, among other things, inconsistencies in the Russian tax, civil and customs legislation. The lack of clarity in the rules creates room for differing views and interpretations by the tax authorities, transportation service companies and courts. In practice, court treatment of the VAT rate widely depends on the precise nature of the particular transportation services and the details of the contractual and operational arrangements.

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

In addition, effective 1 January 2011, amendments related to the application of a zero per cent. VAT rate have been introduced into the Russian Tax Code. The amendments cover the applicability of a zero per cent. VAT rate to work and services related to the import/export of goods, including transportation related services, and documents required to confirm its application. The revised more detailed list of work and services subject to a zero per cent. VAT rate has been established. On the one hand, this may result in an opportunity to apply a zero per cent. VAT rate to certain new types of work and services. However, on the other hand, the amendments may also lead to an inability to apply a zero per cent. VAT rate to certain work and services, previously taxable at a zero per cent. rate.

There is, therefore, a risk that some of the services performed by the Group's Russian subsidiaries will not be subject to a zero per cent. VAT rate. Moreover, there is a risk that the tax authorities will consider certain work or services associated with transportation of imported/exported goods or other similar work or services acquired by the Group's Russian subsidiaries as subject to a zero per cent. VAT rate and challenge the recovery of 18 per cent. VAT incurred on such work or services. This may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Under the Russian Tax Code, Russian incorporated companies of the Group are entitled to reimbursement of the excess of VAT charged by vendors or paid at customs (***Input VAT***) over VAT collected from the buyers (***Output VAT***), either through cash refunds or offset against future tax liabilities. Many Russian companies, especially those involved in export or import sales (including international transit transportation and transportation of exported or imported cargo), encounter difficulties with obtaining a VAT refund or offset. In particular, the amount of VAT reimbursement is subject to obligatory confirmation by the tax authorities. At the same time the Group is entitled to earn interest on any VAT reimbursement which has not been timely refunded/offset by the tax authorities. In practice the tax authorities are often extremely formalistic and aggressive in interpretations of VAT legislation, in confirming the VAT reimbursement, especially when the taxpayer is making a claim for a VAT refund in cash. As a result, obtaining a VAT refund is usually a time-consuming and burdensome process. In practice, the taxpayer often must appeal to the court for a VAT refund or for an offset against future tax liabilities.

Despite the Group's efforts at compliance, there remains the risk that Russian subsidiaries of the Company may not recover the Input VAT or that the recovery may take a significant amount of time. This may have a material adverse effect on the Group's business, results of operations, financial condition or prospects and the trading price of the GDRs.

Currently, the Russian companies of the Group cannot be consolidated for tax purposes.

A new concept of consolidated taxpayer was incorporated into the Russian Tax Code and became effective from 1 January 2012. The new rules introduce consolidated tax reporting that enables the consolidation of the financial results of Russian companies which are part of one group for corporate tax purposes.

In order to apply for a special consolidation tax regime, several requirements should be met. The Group believe that its Russian companies do not satisfy these requirements and thus new consolidation rules in their current version are unlikely to apply to the Group.

In addition, the subsidiaries of the Company cannot offset their Input VAT and Output VAT liabilities among each other.

Taxation risks relating to Cyprus

The GDR holders may be subject to Defence Tax in Cyprus on actual or deemed distribution of profits.

The Special Contribution for the Defence of the Republic Law (***Defence Tax***) imposes tax on certain categories of income. Any GDR holders who are considered to be residents for tax purposes of Cyprus will be subject to the Defence Tax at a rate of 20 per cent (reduced to 17 per cent as of 1 January 2014) on the gross amount of any dividend received or deemed to have received from the Company.

The Company is obliged to send out a questionnaire (IR 42 Questionnaire) to all of its shareholders (both individuals and corporate bodies) to ascertain their tax residency status. Through the questionnaire, the shareholders should inform the Company of their tax residency status. The Company is required to safe-keep these questionnaires and present them to the Cyprus tax authorities upon request.

When the Company pays a dividend to its shareholders (including GDR holders), it must furnish every shareholder with a certificate in which the following must be stated: (a) the amount of dividend which is paid to the shareholder, (b) the amount of Defence Tax withheld by the company with respect to the dividend paid, and (c) the year out of which the profits are being distributed.

The Defence Tax law includes provisions for the deemed distribution of profits. If a Cypriot tax resident company does not distribute within two years from the end of the relevant tax year at least 70 per cent of its after tax accounting profits (excluding revaluations, impairments and fair value adjustments), there will be a deemed distribution of 70 per cent. of such profits. The amount of deemed dividend is reduced by any actual distributions made up to the deemed distribution date. The Defence Tax is withheld only on the proportion of profits that are attributable to shareholders that are considered to be residents of Cyprus (both individuals and bodies of persons) as the deemed distribution rules do not apply to non-resident shareholders. The Defence Tax is a tax on shareholders payable by the Cyprus company which its profits are subject to the deemed distribution rules. The deemed dividend is subject to Defence Tax at a rate of 20 per cent. (reduced to 17 per cent. as of 1 January 2014).

Through a Circular (2011/ 10 dated 13 September 2011), the Commissioner of Income Tax has clarified that the deemed distribution rules would apply only in cases where the ultimate (beneficial) shareholders of a Cyprus (tax resident) company are considered to be residents for tax purposes of Cyprus. However, as per the same circular, certain declarations should be filed with the tax authorities in case the direct registered shareholder(s) are companies considered to be resident for tax purposes of Cyprus.

The Company owns a 60 per cent. share of Ingulana Holdings Limited which in turn owns 100 per cent. of the share capital of Ultracare Holdings Limited. Both Ingulana Holdings Limited and Ultracare Holdings Limited are registered in and considered to be resident for tax purposes in Cyprus. As a consequence, Defence Tax on deemed dividend distribution may arise in respect of profits accruing to Ultracare Holdings Limited, Ingulana Holdings Limited and/or the Company, as applicable, to the extent such profits are attributable to shareholders who are considered to be residents for tax purposes of Cyprus. In this instance, Ultracare Holdings Limited, Ingulana Holdings Limited or the Company (as applicable) would need to debit such Defence Tax paid against the profits attributable to the relevant shareholders.

Upon an actual payment or deemed distribution of a dividend, the Company will have an obligation to withhold and remit the resulting Defence Tax to the tax authorities to the extent that the GDR holders are Cyprus tax resident individuals. In case the tax is not withheld, or if when withheld, is not remitted within the time frame prescribed by law, the Company would be liable to pay the resulting tax, interest and penalties for non compliance.

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

Interest expenses incurred by the Company may not be tax deductible.

Interest expenses are tax deductible if they are incurred wholly and exclusively for the production of taxable income. However, no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing assets not used in the business. This provision applies for a period of seven years from the date of purchase of the relevant asset. Based on current tax policy, an investment in a subsidiary company is considered a non-business asset and any interest expense that relates (or is deemed to relate) to the acquisition/financing of such assets (even if a subsidiary is to distribute dividends on a regular basis) is not considered tax deductible. It is also relevant to note that in accordance with tax legislation enacted on 21 June 2012 taking retroactive effect as from 1 January 2012, it may be possible to claim an interest expense deduction for Corporate Income Tax purposes if the purpose of the loan was to finance the acquisition, of an investment in a wholly-owned subsidiary company (which is made as of 1 January 2012) subject to certain conditions and restrictions. However, as of the date of this Offering Memorandum, the law allowing for the tax deductibility of interest expenses has not yet been signed by the President of the Republic, and consequently has not yet been published in the Official Gazette of the Republic, meaning that the law has not yet come into force.

Consequently, if the Company holds assets not used in the business (such as shares in subsidiaries), the risk cannot be excluded that part or all of the interest expense incurred by the Company is treated as non deductible for Corporate Income Tax purposes.

Taxation risks relating to Estonia

Sustainability of Estonia's unique corporate tax system uncertain

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

The Estonian Ministry of Finance commissioned a study to evaluate the impact of non-taxation of retained earnings to investments and economic development, delivered in December 2011, which overall assessment showed a positive influence and results were deemed compatible with the desired goal behind the introduction of Estonia's unique tax system. However, there can be no assurances that traditional corporate income tax system will not be re-established. Despite government support to maintain the current corporate tax system, other political parties have different views. The change of government might result in re-establishment of a traditional corporate tax system and taxation of annual profits.

Another threat is tax harmonisation in the European Union, more specifically, the Directive for Common Consolidated Corporate Tax Base (***CCCTB***). The Directive, if adopted, will provide a tax system that consolidates the taxable profits of a group of companies under common control, and has a mechanism for allocation of the harmonised tax base amongst the participating Member States according to a special apportionment formula. On 19 April 2012, the European Parliament approved an amended version of the draft of CCCTB Directive that sets forth mandatory opt-in for European companies (except for small and medium-size enterprises) starting five years after the member states apply the CCCTB.

Should this occur, there is high risk that the traditional corporate system would be re-established and the Estonian subsidiaries will start paying corporate income tax from earned profits on an annual basis. This would significantly decrease tax planning opportunities and result in a higher effective tax burden since annual taxation of corporate profits and reinvested profits may become subject to tax retroactively.

Possible increase in tax burden.

The current economic downturn and a state budget deficit, may force the Estonian government to increase the overall tax burden with little advance notice. This could entail increased tax rates, the removal of tax benefits and the introduction of new taxes.

Lack of administrative guidelines and court practice in tax issues.

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

Recent trends within Estonia suggest that the tax authority is heavily focusing on tax audits. The number of tax officials involved with review and investigation has been substantially increased; structural reforms to improve the tax authority's efficiency and competence in conducting tax audits are currently in process. As a result, the risk of the Estonian subsidiary's tax records being audited and potentially challenged is higher.

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

Transfer pricing is one of the priorities of the Estonian tax authority with regard to international taxation. Group companies are subject to transfer pricing regulation, under which transactions between related parties must comply with an arm's length principle. Tax audits are being conducted and the availability of proper documentation is under heavy scrutiny. In the event of a tax audit, the Group's transfer pricing principles may be challenged by the Estonian tax authority and additional taxes may be charged (plus fines or penalties and interest for late payment). It is not possible to request pre-approval or confirmation from the tax authority that they agree with the Group's pricing principles, and therefore there can be no assurance that the pricing methodology applied between the Group and its related parties is correct and sufficiently justified for the Estonian tax authority.

THE GLOBAL OFFERING

The Company	Globaltrans Investment PLC, a company organised and existing under the laws of Cyprus.
The Offering	The Offering consists of an offering of 24,242,500 New GDRs by the Company and 4,227,200 New GDRs by the Selling Shareholder, with each New GDR representing an interest in one new Ordinary Share. The New GDRs offered by the Company consist of 3,637,117 New GDRs in respect of Ordinary Shares held by the Company as treasury shares and 20,605,383 New GDRs in respect of newly-issued Ordinary Shares. The New GDRs are being offered outside the United States in reliance on Regulation S and within the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act. Pursuant to a shareholders' resolution adopted on 4 May 2012, shareholders of the Company voted to disapply their pre-emption rights for one year and therefore, they will not have pre-emptive rights to subscribe for up to 75,782,595 Ordinary Shares in the Offering.
Joint Global Coordinators and Joint Bookrunners	Deutsche Bank, J.P. Morgan, Morgan Stanley and Troika Dialog.
Offer Price	USD 16.50 per New GDR.
Selling Shareholder	Transportation Investments Holding Limited, a company organised and existing under the laws of Cyprus. See "*Principal Shareholders and the Selling Shareholder*".
Share Capital	Immediately prior to the Offering, the Company's issued share capital consisted of 158,135,533 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 233,918,128 Ordinary Shares. Immediately following the Offering, the Company's issued share capital will consist of 178,740,916 issued Ordinary Shares. See *"Description of Share Capital and Applicable Cypriot Law"* and *"Principal Shareholders and the Selling Shareholder"*.
Depositary	The Bank of New York Mellon.
New GDRs	Each New GDR will represent one Ordinary Share on deposit with the Custodian on behalf of the Depositary. The New GDRs will be issued by the Depositary pursuant to the deposit agreement between the Company and the Depositary dated 7 May 2008 (the ***Deposit Agreement***). The Rule 144A GDRs will be evidenced by the Master Rule 144A GDR, and the Regulation S GDRs will be evidenced by the Master Regulation S GDR. See *"Summary of Provisions Relating to the Global Depositary Receipts While in Master Form"*. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See *"Terms and Conditions of the Global Depositary Receipts"*.
Over-Allotment Option	The Selling Shareholder has granted to the Joint Bookrunners an Over-Allotment Option to purchase an additional 3,030,300 New GDRs at the Offer Price. The Over-Allotment Option is exercisable by the Joint Bookrunners on one or more occasions for the purpose of covering over-allotments that may be made, if any, in connection with the Offering and short positions resulting from stabilisation transactions on the date hereof, or from time to time, up to and including the 30th day following the announcement of the Offer Price upon written notice from the

	Joint Bookrunners to the Selling Shareholder and to the extent not previously exercised by the Joint Bookrunners may be terminated by the Joint Bookrunners at any time. See *"Plan of Distribution"*.
Closing Date	The New GDRs are expected to be issued, and payment for them made, on or about 17 July 2012.
Listing	The FSA in its capacity as competent authority under the FSMA has granted the admission to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 158,135,533 GDRs to be issued from time to time against the deposit of Ordinary Shares with The Bank of New York Mellon (the ***Depositary***), of which 57,856,998 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". The Ordinary Shares are not, and are not expected to be, listed on any stock exchange.
Lock-Up	Each of the Company, the Selling Shareholder, EIL and Litten has agreed that neither it, nor any of its subsidiaries, nor any person acting on its or their behalf will, from the date hereof until 180 days after the Closing Date or, if later, the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners: (i) issue (in the case of the Company only), offer, sell, lend, mortgage, assign, pledge, charge, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such securities; or (ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, subject to certain exceptions. See *"Plan of Distribution"*.
Use of Proceeds	The Company will receive gross proceeds of approximately USD 400.0 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 14.1 million. The Company intends to use the net proceeds from the Offering for general corporate purposes. The Company will not receive any proceeds from the New GDRs being sold by the Selling Shareholder. See *"Use of Proceeds"*.
Taxation	For a discussion of certain Cyprus, United States and United Kingdom tax consequences of purchasing and holding the New GDRs, see *"Taxation"*.
Dividend Policy	Holders of the GDRs are entitled to receive amounts, if any, paid by the Company as dividends on the underlying Ordinary Shares, subject to certain provisions. The Company's current dividend policy is to recommend to shareholders a dividend per annum of

not less than 30 per cent. of the imputed consolidated net profit (if any) of the Group based on the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS. Imputed consolidated net profit of the Group is calculated as the consolidated net profit for the period of the Group attributable to the owners of the Group as shown in the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS, less certain non-cash adjustments determined by the Board of Directors. See *"Dividend Policy"*, *"Terms and Conditions of the Global Depositary Receipts"* and *"Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights attaching to Ordinary Shares—Dividend and distribution rights"*.

Voting Rights . . . . Subject to the Deposit Agreement, holders of GDRs are entitled to one vote per GDR at shareholders' meetings. See *"Terms and Conditions of the Global Depositary Receipts"* and *"Description of Share Capital and Applicable Cypriot Law—Articles of Association—Rights attaching to Ordinary Shares—Voting rights"*.

Transfer Restrictions . . . . The GDRs will be subject to certain restrictions as described under *"Selling and Transfer Restrictions—Transfer Restrictions"*.

Settlement and Transfer . . . . The New GDRs are being offered by the Joint Bookrunners subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

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

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

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

Rule 144A GDR ISIN:	US37949E1055
Rule 144A GDR Common Code:	035751033
Rule 144A GDR CUSIP:	37949E105
Rule 144A SEDOL:	B2QTJ18
Regulation S GDR ISIN:	US37949E2046
Regulation S GDR Common Code:	035751017
Regulation S GDR CUSIP:	37949E204
Regulation S SEDOL:	B2QTGT5

USE OF PROCEEDS

The Company will receive gross proceeds of approximately USD 400.0 million from the Offering. The Company expects that its expenses (including underwriting commissions, fees and expenses) incurred in connection with the Offering will not exceed USD 14.1 million.

The Company intends to use the net proceeds from the Offering for general corporate purposes.

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

DIVIDEND POLICY

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

The Company's current dividend policy is to recommend to shareholders a dividend per annum of not less than 30 per cent. of the imputed consolidated net profit (if any) of the Group based on the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS. Imputed consolidated net profit of the Group is calculated as the consolidated net profit for the period of the Group attributable to the owners of the Group as shown in the consolidated financial statements for the relevant financial year prepared in accordance with EU IFRS, less certain non-cash adjustments determined by the Board of Directors. Such adjustments include but are not limited to: negative goodwill; non-cash results of mergers, acquisitions and disposals of shares of Group subsidiaries, joint-ventures or associates; share of profit of associates; and the results of the issuing, amortisation and the revaluation of guarantees. The Board of Directors will recommend the final dividend in respect of each financial year for approval by the general meeting of the Company's shareholders based on the audited stand-alone and consolidated financial statements of the Group for that year. Interim dividends may also be approved at the discretion of the Board of Directors. When considering interim dividends, the Board will take into account the interim performance results based on the interim consolidated financial information for the Group and the prospects of the Group, its planned and committed expenditures, financial flexibility requirements, the availability and cost of funds from external sources and other relevant matters. Payment of any such dividends will be dependent upon imputed consolidated net profit having been earned for the relevant financial year and will be subject to any restrictions and conditions under the Cyprus Companies Law and any other applicable laws and regulations, the Company's articles of association, available cash flow, dividends from the Company's subsidiaries and the Group's capital investment requirements, as well as the approval of the dividend by the general meeting of shareholders of the Company on the recommendation of the Board of Directors. The terms of the Company's dividend policy and the way in which it is applied is subject to modification from time to time as the Board of Directors may approve.

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

GDR TRADING HISTORY

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

	Closing Price per GDR		Average Daily Trading Volume	Average Daily Trading Value
	High	Low	GDR	USD
	(USD)			
Quarter				
Q1 January–March 2011	18.40	16.40	265,363	4,590,882
Q2 April–June 2011	20.18	17.05	298,771	5,596,603
Q3 July–September 2011	18.97	13.00	242,738	3,757,273
Q4 October–December 2011	16.25	11.57	236,466	3,264,518
Q1 January–March 2012	19.05	12.33	226,265	3,534,141
Month ended				
30 April 2012	19.58	16.50	643,043	11,506,313
31 May 2012	16.60	15.94	363,931	6,463,270
30 June 2012	18.60	15.20	268,785	4,688,011

Source: Bloomberg

CAPITALISATION

The following table sets forth the Group's cash and cash equivalents, current borrowings and capitalisation as at 31 March 2012.

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

	As at 31 March 2012
	(USD in thousands)
Cash and cash equivalents	**346,247**
Current borrowings[(1)]	**214,525**
Non-current borrowings[(2)]	
Bank borrowings	155,263
Non-convertible unsecured bonds	395,111
Finance lease liabilities	44,332
Total non-current borrowings	**594,706**
Equity attributable to the shareholders of the Company	968,250
Minority interest in equity	153,329
Total equity	**1,121,579**
Total capitalisation[(3)]	**1,716,285**

(1) Current borrowings include the current portion of non-current bank borrowings, non-convertible unsecured bonds and finance lease liabilities.

(2) Non-current borrowings excludes the current portion of non-current bank borrowings, non-convertible unsecured bonds and finance lease liabilities.

(3) Total capitalisation is the sum of total non-current borrowings and total equity.

The Group's total capitalisation has changed significantly since 31 March 2012, primarily as a result of the MIT Acquisition (and the related financing for that acquisition) (see *"Unaudited Pro Forma Financial Information"*), the Offering and the other matters set forth under *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments"*.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The selected financial information set forth below as at 31 March 2012 and for the three months ended 31 March 2012 and 2011, and as at and for the years ended 31 December 2011 and 2010, has been extracted from the Interim Condensed Consolidated Financial Information as at and for the three months ended 31 March 2012 and the Consolidated Financial Statements as at and for the year ended 31 December 2011, respectively, included in this Offering Memorandum. The selected consolidated financial information as at and for the year ended 31 December 2009 has been extracted from the Consolidated Financial Statements as at and for the year ended 31 December 2009 incorporated by reference in this Offering Memorandum. See *"Presentation of Financial and Other Information—Incorporation by Reference"*. The other information set forth below shows certain unaudited (non-GAAP) financial information and operating information as at and for the three months ended 31 March 2012 and 2011, and as at and for the years ended 31 December 2011, 2010 and 2009. For the financial results, additional unaudited (non-GAAP) financial information and certain operating information as at and for the years ended 31 December 2011 and 2010 for MIT, see *"Business and Financial Information of MIT"*.

Consolidated income statement data

	Three months ended 31 March		Years ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
	(unaudited)				
			(USD in thousands)		
Revenue	452,551	440,903	1,733,056	1,382,670	1,163,407
Cost of sales	(300,151)	(317,599)	(1,210,827)	(981,428)	(874,152)
Gross profit	**152,400**	**123,304**	**522,229**	**401,242**	**289,255**
Selling and marketing costs	(839)	(694)	(3,088)	(2,692)	(2,181)
Administrative expenses	(17,991)	(17,785)	(90,317)	(72,225)	(58,793)
Other gains—net	36	879	3,140	3,048	785
Operating profit	**133,606**	**105,704**	**431,964**	**329,373**	**229,066**
Finance income	(1,049)	(4,978)	7,362	7,203	5,886
Finance costs	(7,290)	(3,620)	(39,935)	(53,109)	(84,559)
Finance costs—net	**(8,339)**	**(8,598)**	**(32,573)**	**(45,906)**	**(78,673)**
Share of profit of associates	14	126	428	206	461
Profit before income tax	**125,281**	**97,232**	**399,819**	**283,673**	**150,854**
Income tax expense	(30,718)	(21,539)	(82,593)	(57,733)	(29,681)
Profit for the year	**94,563**	**75,693**	**317,226**	**225,940**	**121,173**
Attributable to:					
Owners of the Company	80,017	61,355	266,423	177,322	88,057
Non-controlling interest	14,546	14,338	50,803	48,618	33,116
	94,563	**75,693**	**317,226**	**225,940**	**121,173**
Basic and diluted earnings per share for profit attributed to equity holders of the Company during the year (in USD per share)	0.52	0.39	1.68	1.12	0.74

Selected consolidated balance sheet data

	As at 31 March 2012	As at 31 December 2011	2010	2009
	(unaudited)	(USD in thousands)		
Assets				
Non-current assets	1,483,974	1,183,943	1,178,402	961,902
Non-current assets held for sale	—	—	—	2,827
Current assets	552,761	283,905	336,939	300,239
Total assets	**2,036,735**	**1,467,848**	**1,515,341**	**1,264,968**
Equity and liabilities				
Total equity attributable to owners of the Company	968,250	858,061	753,859	610,261
Non-controlling interest	153,329	130,994	130,106	101,307
Total equity	**1,121,579**	**989,055**	**883,965**	**711,568**
Total non-current liabilities	641,291	243,628	370,787	334,917
Total current liabilities	273,865	235,165	260,589	218,483
Total liabilities	**915,156**	**478,793**	**631,376**	**553,400**
Total equity and liabilities	**2,036,735**	**1,467,848**	**1,515,341**	**1,264,968**

Additional (non-GAAP) financial information

	Three months ended 31 March 2012	2011	Years ended 31 December 2011	2010	2009
	(USD in thousands, unless otherwise indicated)				
Adjusted Revenue(1)(2)	304,851	289,642	1,177,026	902,999	685,255
Net Revenue from Operation of Rolling Stock(1)(3)	278,752	271,354	1,095,765	830,042	618,478
EBITDA(1)(4)	155,204	126,168	505,577	385,319	261,630
Adjusted EBITDA(1)(5)	153,280	122,506	505,127	390,906	284,458
Adjusted EBITDA Margin (%)(1)(5)	50.3%	42.3%	42.9%	43.3%	41.5%
Empty Run Costs(1)(6)	59,504	61,254	233,790	203,386	167,877
ROCE (%)(1)(7)	32%	31%	31%	26%	21%
Net Debt(1)(8)	462,984	N/A	258,355	381,336	288,878

Operating information

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
Freight Rail Turnover (billion tonnes-km)(9)	25.5	28.2	110.6	97.4	80.9
Transportation Volume (million tonnes)(10)	15.9	18.3	69.6	63.8	52.8
Average Price Per Trip (USD)(11)	1,090.1	909.0	970.8	770.4	716.9
Average Price Per Trip (RUB)(11)	32,734	26,511	28,536	23,403	22,773
Empty Run Ratio for gondola (open top) cars(12)	45%	44%	41%	42%	46%
Empty Run Ratio for rail tank and hopper cars(12)	107%	109%	111%	108%	114%
Total Empty Run Ratio(13)	66%	63%	62%	62%	72%
Share of Empty Run Kilometres Paid by the Group(14)	78%	78%	78%	82%	83%
Average Number of Loaded Trips Per Railcar(15)	6.5	6.5	26.6	29.3	30.4
Average Distance of Loaded Trips (km)(16)	1,590.9	1,549.0	1,596.6	1,504.0	1,537.8
Average Rolling Stock Operated(17)	39,056	45,623	42,363	36,793	28,406
Owned Fleet (at period end)	42,891(18)	38,968	39,910	38,173	32,384
Leased-in Fleet (at period end)	5,627	13,849	7,670	12,541	4,833
Total Fleet (at period end)	48,518(18)	52,817	47,580	50,714	37,217

(1) Adjusted Revenue, Net Revenue from Operation of Rolling Stock, EBITDA, Adjusted EBITDA, Empty Run Costs, Net Debt and ROCE are non-GAAP measures presented as supplemental measures of the Group's operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of the Group's results as reported under EU IFRS. See *"Presentation of Financial and Other Information"*. Reconciliations of Adjusted Revenue to revenue, Net Revenue from Operation of Rolling Stock to revenue, and EBITDA and Adjusted EBITDA to profit for the period are set out below.

Reconciliation of Adjusted Revenue to Revenue

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
	(USD in thousands)				
Total revenue—operator's services	426,452	422,615	1,651,795	1,309,713	1,096,630
Operating leasing of rolling stock	24,923	17,353	76,555	70,539	65,383
Other revenue	1,176	935	4,706	2,418	1,394
Total revenue	**452,551**	**440,903**	**1,733,056**	**1,382,670**	**1,163,407**
Infrastructure and locomotive tariffs: loaded trips	(147,700)	(151,261)	(556,030)	(479,671)	(478,152)
Adjusted Revenue	**304,851**	**289,642**	**1,177,026**	**902,999**	**685,255**

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

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
			(USD in thousands)		
Revenue from railway transportation—operators services (tariff borne by the Group)	252,726	241,795	929,945	810,661	815,998
Revenue from railway transportation—operators services (tariff borne by the client)	173,726	180,820	721,850	499,052	280,632
Total revenue from railway transportation—operators services	**426,452**	**422,615**	**1,651,795**	**1,309,713**	**1,096,630**
Infrastructure and locomotive tariffs: loaded trips	(147,700)	(151,261)	(556,030)	(479,671)	(478,152)
Net Revenue from Operation of Rolling Stock	**278,752**	**271,354**	**1,095,765**	**830,042**	**618,478**

Reconciliation of EBITDA and Adjusted EBITDA to Profit for the Period

	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
Profit for the year	**94,563**	**75,693**	**317,226**	**225,940**	**121,173**
Plus (Minus)					
Income tax expense	30,718	21,539	82,593	57,733	29,681
Net finance costs	8,339	8,598	32,573	45,906	78,673
Net foreign exchange transaction gains/(losses) on financing activities	2,161	1,626	(2,046)	(7,450)	(21,104)
Amortisation of intangible assets	44	44	179	173	14
Depreciation of property, plant and equipment	19,379	18,668	75,052	63,017	53,193
EBITDA	**155,204**	**126,168**	**505,577**	**385,319**	**261,630**
Minus (Plus)					
Net foreign exchange transaction gains/(losses) on financing activities	2,161	1,626	(2,046)	(7,450)	(21,104)
Share of profit of associates	14	126	428	206	461
Other gains—net	36	879	3,140	3,048	785
(Loss)/gain on sale of property, plant and equipment	(287)	1,031	(1,244)	(2,041)	(1,679)
Reversal of/(impairment charge) for property, plant and equipment	—	—	172	650	(1,291)
Adjusted EBITDA	**153,280**	**122,506**	**505,127**	**390,906**	**284,458**

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

(3) Net Revenue from Operation of Rolling Stock is defined as the sum of revenue from railway transportation—operator's services (tariff borne by the Group) and revenue from railway transportation—operator's services (tariff borne by the client) less infrastructure and locomotive tariffs: loaded trips.

(4) EBITDA is calculated as profit for the year, before income tax expense, finance costs—net, excluding net foreign exchange transaction gains/(losses) on financing activities, amortisation of intangible assets and depreciation of property, plant and equipment. For the three months ended 31 March 2012 and 2011, net foreign exchange transaction gains/(losses) on financing activities is calculated as the sum of foreign exchange gains on borrowings (contained in finance costs) and foreign exchange losses on cash and cash equivalents and finance lease receivables (contained in finance income).

(5) Adjusted EBITDA represents EBITDA less net foreign transaction exchange gains/(losses) on financing activities, share of profit/(loss) of associates and other gains/(losses)—net, other gains/(losses)—net, loss on sale of property, plant and equipment and reversal of/(impairment charge) for property, plant and equipment. For the three months ended 31 March 2012 and 2011, net foreign exchange transaction gains/(losses) on financing activities is calculated as the sum of foreign exchange gains on borrowings (contained in finance costs) and foreign exchange losses on cash and cash equivalents and finance lease receivables (contained in finance income). Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Adjusted Revenue, expressed as a percentage.

(6) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the empty run trips and services provided by other transportation organisations component of cost of sales reported under EU IFRS.

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

(8) Net Debt is calculated as the sum of current and non-current borrowings less cash and cash equivalents.

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

(10) Transportation Volume is a measure of freight rail carriage activity over a particular period measuring weight of cargo carried in million tonnes or thousand tonnes.

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

(12) Empty Run Ratio is calculated as the total of empty trips in kilometres by the relevant rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out).

(13) Total Empty Run Ratio is calculated as total kilometres travelled empty divided by total kilometres travelled loaded by the fleet operated by the Group (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

(14) Share of Empty Run Kilometres Paid by the Group is defined as the percentage of Empty Run kilometres paid by the Group divided by the total amount of Empty Run kilometres incurred by the fleet operated by the Group (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

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

(16) Average Distance of Loaded Trip is calculated as the sum of distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

(18) Does not include 6,616 railcars, which the Group had taken delivery of as at 5 July 2012, nor an additional 817 railcars, which the Group expects to take delivery of by the end of August 2012.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information (***Unaudited Pro Forma Financial Information***) has been prepared to illustrate the effect of the MIT Acquisition on the Group's condensed consolidated income statement for year ended 31 December 2011 and condensed consolidated balance sheet as at 31 December 2011, as if the MIT Acquisition had occurred on 1 January 2011 for the income statement and on 31 December 2011 for the balance sheet.

The Unaudited Pro Forma Financial Information has been prepared based on the Group's historical financial information which has been extracted from, and should be read in conjunction with: (i) the Consolidated Financial Statements, prepared in accordance with EU IFRS, as at and for the year ended 31 December 2011, and (ii) the MIT Financial Statements, prepared in accordance with IFRS, as at and for the year ended 31 December 2011.

The Unaudited Pro Forma Financial Information is provided for illustrative purposes only and does not purport to represent what the actual results of operations or the financial position of the Group would have been had the MIT Acquisition occurred on the dates specified above, nor is it necessarily indicative of the operating results or financial position of the Group for any future periods. The Unaudited Pro Forma Financial Information reflects management's best estimates. Because of its nature, the Unaudited Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of operations of the Group. It also does not reflect the financial position of MIT as at the date of the MIT Acquisition. Any purchase price adjustments provided for in the MIT Acquisition Agreement described elsewhere in this Offering Memorandum or the final allocation of the purchase price could be different to what is reflected herein. The actual consolidated financial position and results of operations of the Group may differ significantly from the pro forma amounts reflected herein because of these and other factors.

The Unaudited Pro Forma Financial Information has been prepared in a form consistent with the accounting policies adopted in the Group's latest annual accounts. The differences in accounting policies applied by the Group, which uses EU IFRS, and MIT, which uses IFRS are not material.

All pro forma adjustments are directly attributable to the transactions, factually supportable and are expected to have a continuing impact on the Group.

The Unaudited Pro Forma Financial Information does not reflect any transactions subsequent to 31 December 2011, except for the cash contribution made to MIT by its participant on 2 February 2012 and repayment of finance lease liabilities by MIT in March 2012. See *"Business and Financial Information of MIT—Recent Developments"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments"*.

UNAUDITED PRO FORMA FINANCIAL INFORMATION – CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

	Group[(1)]	MIT as adjusted[(2)]	Adjustments for the MIT Acquisition[(3)]	Notes	Pro Forma for the MIT Acquisition
			(USD in thousands)		
Revenue[(4)]	1,733,056	583,896	(33,367)	A	2,283,585
			34,295	A	
			(25,925)	B	
Cost of sales[(4)]	(1,210,827)	(449,487)	8,370		(1,651.944)
Gross profit	**522,229**	**134,409**	**(24,997)**		**631,641**
Selling and marketing costs	(3,088)	—	—		(3,088)
Administrative expenses	(90,317)	(12,078)	—		(102,395)
Other gains/(losses)—net	3,140	(37)	—		3,103
Operating profit	**431,964**	**122,294**	**(24,997)**		**529,261**
Finance income	7,362	7,523	(7,253)	C	7,632
Finance costs	(39,935)	(19,861)	(8,821)	D	(68,617)
Finance costs—net	**(32,573)**	**(12,338)**	**(16,074)**		**(60,985)**
Share of profit of associates	428	—	—		428
Profit before tax	**399,819**	**109,956**	**(41,071)**		**468,704**
Income tax expense	(82,593)	(22,190)	8,400	E	(96,383)
Profit for the year	**317,226**	**87,766**	**(32,671)**		**372,321**
Attributable to:					
Owners of the Company	266,423	87,766	(32,671)		321,518
Non-controlling interest	50,803	—	—		50,803
	317,226	**87,766**	**(32,671)**		**373,321**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company					
Weighted average number of ordinary shares in issue (in thousands)	158,136				158,136
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (in USD per share)	1.68				2.03[(5)]

(1) The condensed consolidated income statement of the Group for the year ended 31 December 2011 has been extracted from the Consolidated Financial Statements for the year ended 31 December 2011.

(2) See *"—Notes to Unaudited Pro Forma Financial Information—Adjustments to MIT historical financial information"*.

(3) For details of the adjustments for the MIT Acquisition, see *"—Notes to Unaudited Pro Forma Financial Information—MIT Acquisition and assumptions"* and *"—Notes to Unaudited Pro Forma Financial Information—Pro forma adjustments to the condensed consolidated income statement for the year ended 31 December 2011"*.

(4) See *"—Supplemental Schedule of Revenue and Cost of Sales for the year ended 31 December 2011"*.

(5) Excluding the effect of the Offering. The Offering consists of a total of 31,500,000 New GDRs, representing 31,500,000 Ordinary Shares, of which 20,605,383 represent newly-issued Ordinary Shares and 10,894,617 represent existing Ordinary Shares, including 3,637,117 Ordinary Shares acquired by the Company in January 2012 and held as treasury shares.

SUPPLEMENTAL SCHEDULE OF REVENUE AND COST OF SALES FOR THE YEAR ENDED 31 DECEMBER 2011

	Group[(1)]	MIT as adjusted[(2)]	Adjustments for the MIT Acquisition[(3)]	Notes	Pro Forma Supplemental Schedule for the MIT Acquisition
			(USD in thousands)		
Revenue					
Railway transportation—operators services	1,651,795	579,148	(33,327)	A	2,197,616
Railway transportation—freight forwarding	3,422	169	(40)	A	3,551
Operating leasing of rolling stock	76,555	3,867	—		80,422
Other	1,284	712	—		1,996
Total revenue	**1,733,056**	**583,896**	**(33,367)**		**2,283,585**
Cost of sales					
Infrastructure and locomotive tariffs: loaded trips	556,030	239,527[(5)]	(928)	A	794,629
Infrastructure and locomotive tariffs: empty runs	233,790[(4)]	44,981[(5)]	(1,559)	A	277,212
Other tariffs and services provided by other transportation organisations	65,594[(4)]	104,056[(5)]	(31,808)	A	137,842
Infrastructure, locomotive and other tariffs and services provided by other transportation organisations	**855,414**	**388,564**	**(34,295)**		**1,209,683**
Operating lease rentals—rolling stock	132,570	26,539	—		159,109
Employee benefit expense	19,561	3,658	—		23,219
Repair and maintenance	76,243	12,627	—		88,870
Depreciation of property, plant and equipment	73,991	17,451	12,562	B	104,004
Amortisation of intangible assets	179	—	13,363	B	13,542
Fuel and spare parts—locomotives	27,708	—	—		27,708
Engagement of locomotive crews	12,684	—	—		12,684
Loss/(Gain) on sale of property, plant and equipment	1,314	(209)	—		1,105
Reversal of impairment charge for property, plant and equipment	(172)	—	—		(172)
Other expenses	11,335	857	—		12,192
Total cost of sales	**1,210,827**	**449,487**	**(8,370)**		**1,651,944**

(1) The financial information of the Group for the year ended 31 December 2011 has been extracted from the Consolidated Financial Statements for the year ended 31 December 2011, except as indicated in Note (4) below.

(2) For details of the adjustments to the MIT historical financial information, see *"—Notes to the Unaudited Pro Forma Financial Information—Adjustments to MIT's historical financial Information"*.

(3) For details of the adjustments for the MIT Acquisition, see *"—Notes to Unaudited Pro Forma Financial Information—MIT Acquisition and assumptions"* and *"—Notes to Unaudited Pro Forma Financial Information—Pro forma adjustments to the condensed consolidated income statement for the year ended 31 December 2011"*.

(4) Derived from the Group's management accounts.

(5) Derived from MIT's management accounts.

UNAUDITED PRO FORMA FINANCIAL INFORMATION – CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2011

	Group(1)	MIT as adjusted(2)	Adjustments for the MIT Acquisition(3)	Notes	Pro Forma for the MIT Acquisition
			(USD in thousands)		
Assets					
Non-current assets					
Property, plant and equipment	1,106,171	209,605	194,974	H	1,510,750
Intangible assets	150	—	239,381	H	239,531
Trade and other receivables	75,777	298	—		76,075
Investment in associates	1,845	—	—		1,845
Total non-current assets	**1,183,943**	**209,903**	**434,355**		**1,828,201**
Current assets					
Inventories	8,002	730	—		8,732
Trade and other receivables	150,955	78,734	(4,059)	F	225,630
Current income tax assets	4,191	—	—		4,191
Cash and cash equivalents	120,757	35,046	(145,332)	G	10,471
Total current assets	**283,905**	**114,510**	**(149,391)**		**249,024**
Non-current assets held for sale	—	5,055	—		5,055
Total assets	**1,467,848**	**329,468**	**284,964**		**2,082,280**
Equity and liabilities					
			(115,323)	H	
			847	F	
Equity attributable to the owners of the Company	858,061	115,323	(114,476)		858,908
Non-controlling interests	130,994	—	—		130,994
Total equity	**989,055**	**115,323**	**(114,476)**		**989,902**
Non-current liabilities					
Borrowings	208,381	51,208	374,209	G	633,798
Deferred tax liabilities	35,247	17,971	51,195	H	104,413
Total non-current liabilities	**243,628**	**69,179**	**425,404**		**738,211**
Current liabilities					
Borrowings	170,731	25,355	(21,058)	G	175,028
Trade and other payables	63,959	113,591	(4,906)	F	172,644
Current tax liabilities	475	6,020	—		6,495
Total current liabilities	**235,165**	**144,966**	**(25,964)**		**354,167**
Total liabilities	**478,793**	**214,145**	**399,440**		**1,092,378**
Total equity and liabilities	**1,467,848**	**329,468**	**284,964**		**2,082,280**

(1) The condensed consolidated balance sheet of the Group as at 31 December 2011 has been extracted and calculated from the Consolidated Financial Statements for the year ended 31 December 2011.

(2) See *"—Notes to Unaudited Pro Forma Financial Information—Adjustments to MIT's historical financial information"*.

(3) For details of the adjustments for the MIT Acquisition, see *"—Notes to Unaudited Pro Forma Financial Information—MIT Acquisition and assumptions"* and *"—Notes to Unaudited Pro Forma Financial Information—Pro forma adjustments to the condensed consolidated balance sheet as at 31 December 2011"*.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

MIT Acquisition and assumptions

In May 2012, the Group acquired a 100 per cent. interest in MIT, the "captive" freight rail transportation operator of Metalloinvest, for USD 540 million on a cash and debt free basis, assuming normalised working capital, no capital commitments and no loans to related party. The MIT Acquisition Agreement (as defined below) provides for a purchase price adjustment in the event that post-completion accounts reflect differences in these assumptions. Accordingly, the Unaudited Pro Forma Financial Information assumes that at the closing of the MIT Acquisition, MIT did not have any debt, capital commitments or related party loan receivables, and had a normalised working capital. It is expected that MIT's purchase price will be finalised by the end of July 2012. For further details of the MIT business, see *"Business and Financial Information of MIT"*.

Cash and cash equivalents

The Unaudited Pro Forma Financial Information assumes that cash and cash equivalents upon the MIT Acquisition was USD 13,707 thousand, resulting in a corresponding increase in the preliminary purchase price (as the agreed purchase price assumes MIT is cash-free at completion) as set out below, taking into account the capital contribution of USD 55,224 thousand MIT received in February 2012 and the repayment of all of its outstanding finance lease liabilities of USD 76,563 thousand in March 2012.

Table 1	**USD in thousands**	
Preliminary purchase consideration		**540,000**
Cash and cash equivalents of MIT as at 31 December 2011	35,046	
February 2012 cash contribution to MIT by its participant	55,224	
March 2012 repayment of finance lease liabilities	(76,563)	
Total assumed cash balance on closing of MIT Acquisition		**13,707**
Adjusted preliminary purchase consideration		**553,707**

Borrowings

The Unaudited Pro Forma Financial Information also assumes that the MIT Acquisition was financed by borrowings of USD 429,714 thousand (including a short-term portion of USD 4,297 thousand) and by USD 123,993 thousand of cash and cash equivalents. The amount of borrowings primarily comprises a USD 400,000 thousand floating rate three-year secured credit facility obtained specifically for the MIT Acquisition. The Pro Forma Financial Information assumes that the shortfall in cash and cash equivalents as at 31 December 2011 required for the MIT Acquisition was financed from a RUB 1,000,000 thousand (USD 33,648 thousand) fixed rate long-term loan facility (which was obtained by the Group in February 2012). An arrangement fee in the amount of USD 3,934 thousand has been deducted from the amount of these borrowings.

Interest on the USD 400,000 thousand secured credit term facility is assumed to be at a floating rate and based on three-month LIBOR as at 30 April 2012.

Preliminary fair value of MIT's assets, liabilities and goodwill

The Unaudited Pro Forma Financial Information uses the preliminary fair values of MIT's assets and liabilities. The final fair values of identifiable assets, liabilities and contingent liabilities will be determined after the finalisation of the purchase price allocation and may be different.

For the purposes of the Unaudited Pro Forma Financial Information the excess of the preliminary purchase consideration over MIT's IFRS carrying amounts of net identifiable assets acquired has been allocated to property, plant and equipment (USD 194,974 thousand), identifiable intangible assets (USD 61,001 thousand), related tax effect (USD 51,195) and goodwill (USD 178,380 thousand).

Table 2	USD in thousands	
Adjusted preliminary purchase consideration (see Table 1 above)		**553,707**
IFRS carrying value of the net assets at 31 December 2011	115,323	
Excess of the preliminary fair value of property, plant and equipment over their IFRS carrying amounts	194,974	
Preliminary fair value of identifiable intangible assets	61,001	
Deferred tax effect on the excess of preliminary fair value of property, plant and equipment over their IFRS carrying amounts and preliminary fair value of identifiable intangible assets	(51,195)	
February 2012 cash contribution into MIT by its participant	55,224	
Adjusted preliminary fair value of the net identifiable assets acquired		**375,327**
Goodwill		**178,380**

Intangible assets which were identified in respect of the MIT Acquisition comprise primarily the customer relationship in relation to the contract with Metalloinvest (see "*Business and Financial Information of MIT—MIT Acquisition*") which is amortised over 5 years.

However, it should be noted that the amounts allocated to property, plant and equipment and identifiable intangible assets may change as a result of the finalisation of the purchase price allocation.

The following sections set out in further detail the adjustments made to the condensed consolidated balance sheet and the condensed consolidated income statement contained in the Unaudited Pro Forma Financial Information.

Pro forma adjustments to the condensed consolidated income statement for the year ended 31 December 2011

A. These adjustments effect the elimination of revenues/expenses between the Group and MIT. The resulting increase in gross profit is attributable to the penalties recorded as an expense by MIT and not recorded as income by the Group during 2011. The amounts for MIT have been translated from Roubles into US Dollars at the average exchange rate for the year ended 31 December 2011 of RUB 29.3948:USD 1.

B. This adjustment is to record additional depreciation and amortisation expense in relation to the fair values of tangible and intangible assets identified as a result of the preliminary purchase price allocation.

C. This adjustment effects the reversal of interest income generated by MIT on loans advanced to related parties. By 31 December 2011, all loans were settled ahead of their stated maturity in the course of the preparation for the sale/acquisition.

D. This adjustment is to accrue the interest expense on the assumed borrowings incurred to finance the MIT Acquisition (in the amount of USD 28,682 thousand) as described above, and to reverse MIT's interest expense on finance lease liabilities and borrowings (in the amount of USD 19,861 thousand), reflecting the debt-free acquisition assumption. Interest expense is calculated using a floating rate and based on three-month LIBOR as at 30 April 2012, consistent with the term credit facility relating to the MIT Acquisition. A change in the floating interest rate by ⅛ per cent. would result in a change of USD 500 thousand in interest expense and a change of USD 400 thousand in net income.

E. This adjustment is to the income tax effect of the adjustments above on the basis of a tax rate of 20 per cent. (the statutory income tax rate in Russia).

Pro forma adjustments to the condensed consolidated balance sheet as at 31 December 2011

F. These adjustments effect the elimination of trade and other receivables/payables between the Group and MIT. The adjustment to equity attributable to the owners of the Company of USD 847 thousand represents the penalties recorded as an expense by MIT and not recorded as income by the Group during 2011. The amounts for MIT have been translated from Roubles into US Dollars at the exchange rate as at 31 December 2011 of RUB 32.1961:USD 1.

G. These adjustments effect changes in cash and cash equivalents, non-current borrowings and current borrowings for the following:

(i) A cash contribution of USD 55,224 thousand made to MIT by a new participant in February 2012 and the repayment of all finance lease liabilities of MIT outstanding as at 31 December 2011 in the amount of USD 76,563 thousand in March 2012.

(ii) Additional funding needed by the Group to complete the MIT Acquisition by the Group in the amount of USD 425,417 thousand of long-term borrowings and the amount of USD 4,297 thousand current-term portion of borrowings.

(iii) payment of the adjusted preliminary purchase price in connection with the MIT Acquisition.

As a result, cash and cash equivalents is adjusted as follows:

	USD in thousands
Cash contribution received by MIT from a new participant	55,224
Repayment made by MIT of finance lease liabilities	(76,563)
Adjustment to cash and cash equivalents for cash contribution and repayment of finance lease liabilities	**(21,339)**
Borrowings (non-current portion)	425,417
Borrowings (current portion)	4,297
Adjusted preliminary purchase consideration (see Table 1 above)	(553,707)
Total adjustment to cash and cash equivalents for MIT Acquisition	**(145,332)**

Non-current borrowings is adjusted as follows:

	USD in thousands
Repayment made by MIT of finance lease liabilities (long-term portion)	(51,208)
Borrowings (non-current portion)	425,417
Total adjustments to non-current borrowings	**374,209**

Current borrowings is adjusted as follows:

	USD in thousands
Repayment made by MIT of finance lease liabilities (short-term portion)	(25,355)
Borrowings (current portion)	4,297
Total adjustments to current borrowings	**(21,058)**

H. These adjustments record the excess of the preliminary purchase consideration over the preliminary fair value of net identifiable assets acquired, their related deferred tax effect and goodwill on acquisition of MIT, as set out in Table 2 above.

Adjustments to MIT's historical financial information

MIT's historical financial information was adjusted to: (a) translate amounts into US Dollars, as this is the Group's presentation currency, (b) reclassify several amounts to conform to the Group's presentation, and (c) to eliminate the inherent presentation differences due to the fact that MIT is a limited liability company under Russian law. See paragraph (g) in *"—Notes to MIT adjusted financial information"*. The MIT's adjusted financial information below should be read in conjunction with MIT's Financial Statements.

Adjustments to MIT's historical financial information – Condensed statement of comprehensive income for the year ended 31 December 2011

	MIT Historical(1)	MIT (translated into USD)(2)	Reclassifications	Notes(3)	Changes in presentation	Notes(3)	Total Adjusted MIT
	(All amounts in USD except for MIT Historical, which are in Roubles, thousands)						
Revenue	17,163,512	583,896	—				583,896
Cost of sales	(13,003,196)	(442,364)	(7,123)	a, b, c			(449,487)
Gross profit	**4,160,316**	**141,532**	**(7,123)**				**134,409**
Selling, marketing costs	—	—	—				—
General and administrative expenses	(327,064)	(11,127)	11,127	c			—
Administrative expenses	—	—	(12,078)	b, c			(12,078)
Other operating expenses	(238,422)	(8,111)	8,111	a, b, d			—
Other gains/(losses)—net	—	—	(37)	d			(37)
Operating profit	**3,594,830**	**122,295**	**—**				**122,295**
Finance income	221,144	7,523	—				7,523
Finance costs	(6,194,120)	(210,722)	190,861	e			(19,861)
(Loss)/profit before income tax	**(2,378,146)**	**(80,905)**	**190,861**	e			**109,956**
Income tax charge	(652,290)	(22,190)	—				(22,190)
Change in net assets attributable to participants	**(3,030,436)**	**(103,904)**	**190,861**		**(87,766)**	g	**—**
Profit for the year					**87,766**	g	**87,766**

(1) The statement of comprehensive income of MIT for the year ended 31 December 2011 has been extracted from the MIT Financial Statements.

(2) The MIT Financial Statements are presented in Roubles. In the Unaudited Pro Forma Financial Information, the MIT financial information is presented in US Dollars in order to be consistent with the Group's presentation currency. Balance sheet items have been translated into US Dollars at the exchange rate prevailing at the date of the balance sheet of RUB 32.1961:USD 1, whereas income and expense items have been translated into US Dollars at the average exchange rate for the year ended 31 December 2011 of RUB 29.3948:USD 1, which approximates the exchange rates existing at the dates of the transactions.

(3) For details of the adjustments to MIT's financial information, see *"—Notes to MIT adjusted financial information"*.

Adjustments to MIT's historical financial information – Statement of financial position as at 31 December 2011

	MIT Historical(1)	MIT (translated into USD)(2)	Reclassifications	Notes(3)	Changes to presentation	Notes(3)	Total Adjusted MIT
	(All amounts in USD except for MIT Historical column, which are in Roubles, thousands)						
Assets							
Non-current assets							
Property, plant and equipment	6,748,474	209,605	—				209,605
Trade and other receivables	—	—	298	f			298
Other non-current assets	9,589	298	(298)	f			—
Total non-current assets	**6,758,063**	**209,903**	**—**				**209,903**
Current assets							
Inventories	23,492	730	—				730
Trade and other receivables	2,534,924	78,734	—				78,734
Cash and cash equivalents	1,128,330	35,046	—				35,046
Total current assets	**3,686,746**	**114,509**	**—**				**114,509**
Non-current assets held for sale	162,746	5,055	—				5,055
Total assets	**10,607,555**	**329,467**	**—**				**329,467**
Equity and Liabilities							
Equity attributable to the owners of the Company					**115,323**	g	**115,323**
Non-current liabilities			—				
Borrowings	—	—	51,208				51,208
Finance lease liability	1,648,682	51,208	(51,208)				
Deferred income tax liabilities	578,599	17,971	—				17,971
Total non-current liabilities	**2,227,281**	**69,179**	**—**				**69,179**
Current liabilities							
Borrowings	—	—	25,355				25,355
Finance lease liability	816,333	25,355	(25,355)				
Trade and other payables	3,657,189	113,591	—				113,591
Current income tax liabilities	193,811	6,020	—				6,020
Total current liabilities, excluding net assets attributable to participants	**4,667,333**	**144,966**	**—**				**144,966**
Total net assets attributable to participants	**3,712,941**	**115,323**	**—**		**(115,323)**	g	**—**
Total liabilities	**10,607,555**	**329,467**	**—**		**(115,323)**		**214,144**
Total equity and liabilities							**329,467**

(1) The statement of financial position of MIT as at 31 December 2011 has been extracted from the MIT Financial Statements.

(2) The MIT Financial Statements are presented in Roubles. In the Unaudited Pro Forma Financial Information, the MIT financial information is presented in US Dollars in order to be consistent with the Group's presentation currency. Balance sheet items have been translated into US Dollars at the exchange rate prevailing at the date of the balance sheet of RUB 32.1961:USD 1, whereas income and expense items have been translated into US Dollars at the average exchange rate for the year ended 31 December 2011 of RUB 29.3948:USD 1, which approximates the exchange rates existing at the dates of the transactions.

(3) For details of the adjustments to MIT's financial information, see *"—Notes to MIT adjusted financial information"*.

Notes to MIT adjusted financial information

Certain reclassification adjustments have been made to the MIT financial information included in the Unaudited Pro Forma Financial Information from that as presented in the MIT Financial Statements for the year ended 31 December 2011, as summarised below.

a. Penalties of USD 8,236 thousand, which are part of rail tariffs and were included within other operating expenses, have been re-classified to cost of sales.

b. Gain on disposal of property, plant and equipment of USD 162 thousand, which was included within other operating expenses was re-classified to cost of sales in the amount of a USD 209 thousand gain and to administrative expenses in the amount of a USD 47 thousand loss.

c. Property and other taxes of USD 904 thousand, which were included within cost of sales were re-classified to administrative expenses and general and administrative expenses were re-classified as administrative expenses.

d. Social costs of USD 7 thousand, foreign exchange gain on operating activities of USD 529 thousand, and other expenses of USD 559 thousand, which were included within other operating expenses were re-classified to other gains/(losses)—net. The net amount of this reclassification is USD 37 thousand.

e. MIT is a limited liability company incorporated in Russia. The equity participants in such companies have the right to withdraw and request redemption of their interests in the company in cash. The company's obligation to redeem the participant equity interest gives rise to a financial liability under IFRS. In its IFRS financial statements, MIT records the liability as net assets attributable to participants at the IFRS carrying value of the company's net assets that are or could become distributable to its participants. Net results for the period are accounted for as a change in net assets attributable to participants in the statement of comprehensive income. Distribution to participants is recorded as a finance cost in MIT's statement of comprehensive income. The distribution to participants included in finance costs in MIT's financial statements would be treated as dividends in the Group's financial statements. Therefore the finance costs related to the distributions to participants were reversed in an amount of USD 190,861 thousand.

f. Other non-current assets of USD 298 thousand were re-classified to non-current trade and other receivables.

g. As described in note e above, MIT, being a limited liability company, does not have equity. To conform the MIT presentation to that used by the Group, the change in net assets attributable to participants in an amount of USD 87,766 thousand has been presented as profit for the year in the pro forma consolidated income statement. Net assets attributable to participants in an amount of USD 115,323 thousand have been presented as equity attributable to the owners of the company in the pro forma condensed consolidated balance sheet.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Interim Condensed Consolidated Financial Information included elsewhere in this Offering Memorandum and "Selected Consolidated Financial and Operating Information".

The Group's financial information set forth below as at 31 March 2012 and for the three months ended 31 March 2012 and 2011, and as at and for the years ended 31 December 2011 and 2010, has been extracted from the Interim Condensed Consolidated Financial Information as at and for the three months ended 31 March 2012, and the Consolidated Financial Statements as at and for the year ended 31 December 2011, respectively, included in this Offering Memorandum. The selected consolidated financial information as at and for the year ended 31 December 2009 has been extracted from the Consolidated Financial Statements as at and for the year ended 31 December 2009 incorporated by reference in this Offering Memorandum. See "Presentation of Financial and Other Information—Incorporation by Reference".

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

OVERVIEW

The Group is a leading private freight rail transportation group with operations in Russia, the CIS and the Baltic countries. Based on Rosstat data and the Group's management accounts, the market share of the Group on a Pro Forma basis for the MIT Acquisition amounted to 7.0 per cent. of the overall Russian freight rail Transportation Volumes, which by freight type included 15.3 per cent. of the total volume of metallurgical cargoes (ferrous metal, scrap metals, and ores), 9.9 per cent. of the total volume of oil products and oil, and 4.8 per cent. of the total volume of coal (thermal and coking) transported in Russia in 2011.

The Group's main business is the provision of freight rail transportation services, which accounted for 94.2 per cent. of the Pro Forma Adjusted Revenue in 2011, and is complemented by a railcar leasing business, which accounted for 5.4 per cent of the Pro Forma Adjusted Revenue in 2011. In 2011, the Pro Forma Freight Rail Turnover amounted to 144.9 billion tonnes-kilometres and Pro Forma Transportation Volume amounted to 86.4 million tonnes.

The Group provides services to more than 650 customers, and its key customers include companies in, or suppliers to or off-takers of a number of large Russian industrial groups in the metals and mining sector (including Evraz, Mechel, Metalloinvest, MMK and Severstal) and the oil products and oil sector (including GazpromNeft, Lukoil, Rosneft and TNK-BP).

The Pro Forma Total Fleet amounted to 57,461 units of rolling stock as at 31 March 2012 (including Pro Forma Owned Fleet of 51,147 units). In addition, as at 5 July 2012, the Group had taken delivery of an additional 6,616 railcars. It also expects to take delivery of a further 817 railcars by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). The Group's fleet is primarily focused on operating a fleet of gondola (open top) cars and rail tank cars. The Group also operates a limited number of locomotives for use in addition to the traction services provided by Russian Railways.

For the year ended 31 December 2011, the Group had Pro Forma Adjusted Revenue of USD 1,489 million and Pro Forma Adjusted EBITDA of USD 646 million.

BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements were prepared in accordance with EU IFRS. The Consolidated Financial Statements of the Group, which comprises the Company and all its subsidiaries, include the historic assets, liabilities, revenues and expenses that were directly related to these entities during the relevant financial period. Business combinations involving entities under common control (ultimately controlled by the same party, before and after the business combination, where such control is not transitory) are accounted for using the predecessor basis of accounting. See *"Presentation of Financial and Other Information"* for more information on the Group's use of the predecessor basis of accounting.

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

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

MIT Acquisition

In May 2012, the Group acquired a 100 per cent. interest in MIT, the "captive" freight rail transportation operator of Metalloinvest, for USD 540 million on a cash and debt free basis, assuming normalised working capital and no capital commitments. As at 31 March 2012, MIT's Total Fleet consisted of 8,943 railcars (including Owned Fleet of 8,256 railcars), of which 8,453 were gondola (open top) railcars. For further details of the MIT Acquisition, see *"Summary—MIT Acquisition"* and for further details of the MIT business, results of operations and financial position, see *"Business and Financial Information of MIT"*.

In connection with the MIT Acquisition, MIT has entered into the MIT Freight Service Contracts with the Metalloinvest entities that produce and trade iron ore and HBI. These arrangements provide for MIT to manage 100 per cent. of Metalloinvest's rail transportation volumes for the year ended 31 May 2013 and give MIT a right of first refusal over 60 per cent. of such volumes for each of the years ended 31 May 2014 and 2015, subject to certain conditions. The price of these services is fixed for different cargoes and routes for the year ended 31 May 2013 but will be determined by reference to market prices (established from a tender among large operators) in the subsequent two years. Accordingly, the MIT Acquisition and the MIT Freight Service Contracts are expected to increase significantly the Group's revenues. The volume of these cargoes is expected to be larger than the capacity of MIT's Owned Fleet. As a result, MIT will lease-in rolling stock under operating leases or use Engaged Fleet to service these cargoes in part, which will affect the Group's results of operations as the profitability generated by the Leased-in Fleet or the use of Engaged Fleet is typically lower than that generated using its Owned Fleet. For further details of the MIT Freight Service Contracts, see *"Material Contracts and Related Party Transactions—Material Contracts—MIT Freight Service Contracts"*.

The MIT Acquisition was financed in part by the proceeds of a USD 400 million three-year floating rate secured credit facility provided by Sberbank, entered into in April 2012. For further details of that loan and the related security, see *"Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility"*.

For more information regarding the impact of the MIT Acquisiton on the Group, see *"Unaudited Pro Forma Financial Information"*.

Macroeconomic factors

The Group's results have been, and future results are likely to be, affected by the macroeconomic conditions in Russia. The Russian economy is commodity driven and is affected by changes in demand for key commodities domestically, or in adjacent countries, including in European countries. Payments from fuel and the energy sector in the form of customs duties and taxes accounted for nearly half of the federal budget's revenues. The rebound of Russia's economy since the economic downturn in 2008-2009 was primarily driven by a recovery in its key commodities industries but was also supported by a recovery in domestic demand. Demand trends for oil products and oil, coal, construction materials and ferrous metals, scrap metals and ores have all improved on a yearly basis since 2009, which in turn, has contributed to strong growth in GDP of 4.3 per cent. in 2010 and 4.3 per cent. in 2011. Further, GDP in Russia expanded 4.9 per cent. in the first quarter of 2012 compared to the same quarter in the previous year, according to Rosstat's preliminary estimates. The growth in the economy has provided the Russian government with significant budget surpluses, which has enabled increased public investment in infrastructure and the accumulation of foreign exchange reserves. Growing incomes resulted in strong demand for housing and consumer goods. During the continuing recovery in 2010 and 2011, Russian Freight Rail Turnover increased by 8 per cent. and 6 per cent., respectively, over the applicable previous year, according to Rosstat.

As the demand for freight rail transportation is tightly correlated to industrial production, demand for the Group's services and its pricing, volumes, revenue and operating profit are affected by the macroeconomic climate in Russia. See also *"Russian Rail Transportation Market"*.

Expansion and composition of the fleet

The Group has significantly expanded its Owned Fleet in recent years, focusing on gondola (open top) cars and rail tank cars, supporting the overall increase in the size of the Group's business. In particular, in 2009 and 2010 the Group's Owned Fleet grew significantly. In 2011, the Group's railcar investment programme was reduced due to increases in railcar prices. However, in the final months of 2011 and into 2012, the Group scaled-up its railcar investment programme. In the period from 1 January 2012 to 5 July 2012, the Group has taken delivery of 9,602 railcars. It also expects to take delivery of a further 817 railcars by the end of August 2012. In May 2012, the MIT Acquisition resulted in the addition of MIT's fleet which comprised 8,943 railcars as at 31 March 2012 (including MIT's Owned Fleet of 8,256 railcars) to the Group. See "*—MIT Acquisition*". Together, this is expected to take the Group's Owned Fleet as at 31 August 2012 to 58,580 units and the Total Fleet to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated).

Over the same periods, the Group changed the size of its Leased-in Fleet in response to changes in customer demand, changes in the market price for the purchase of new railcars, changes in lease-in rates and to test new markets. The Group's results of operations are affected by changes in the size and share of the Leased-in Fleet as the profitability generated by the Leased-in Fleet is typically lower than that generated using the Owned Fleet. In the second half of 2010, the Group significantly increased its Leased-in Fleet in response to increases in customer demand for its services and reasonable leasing rates. Conversely, in 2011, in response to increases in leased-in rates along with the Group's intention to substitute a portion of the Leased-in Fleet with its Owned Fleet, the Group's Leased-in Fleet decreased significantly, primarily towards the end of the year, and this trend continued in the three months ended 31 March 2012. The purchase of new railcars, as described above, is intended to replace the Leased-in Fleet returned in these periods, and to expand the Total Fleet further.

The table below sets forth the Group's Owned Fleet and Leased-in Fleet as at 31 March 2012 and as at 31 December 2011, 2010 and 2009. For details of the Pro Forma Total Fleet and Pro Forma Owned Fleet for the MIT Acquisition as at 31 March 2012, see *"—Overview"*.

	As at 31 March				As at 31 December					
	2012		2011		2011		2010		2009	
	Owned Fleet	Leased-in Fleet	Owned Fleet	Leased-in Fleet	Owned Fleet	Leased-in Fleet	Owned Fleet	Leased-in Fleet	Owned Fleet	Leased-in Fleet
Gondola (open top) cars	24,217	1,977	20,854	9,991	21,797	4,810	20,650	8,918	15,464	2,357
Rail tank cars	18,131	3,647	17,571	3,855	17,570	2,857	16,976	3,622	16,372	2,474
Hopper cars	370	0	370	0	370	0	370	0	370	0
Locomotives	53	3	53	3	53	3	57	1	58	2
Flat cars	120	0	120	0	120	0	120	0	120	0
Total	**42,891**	**5,627**	**38,968**	**13,849**	**39,910**	**7,670**	**38,173**	**12,541**	**32,384**	**4,833**

Note: For definitions of Owned Fleet and Leased-in Fleet, see *"Presentation of Financial and Other Information—Other Data and Information—Fleet terminology"*.

Factors affecting freight rail transportation

Freight rail transportation is the primary service offered by the Group, accounting for 93.1 per cent. of the Group's Adjusted Revenue in the year ended 31 December 2011 and 91.4 per cent. in the three months ended 31 March 2012. The following key factors affect this part of the Group's business.

Average Rolling Stock Operated

The Group's results of operations and, in particular, its Net Revenue from Operation of Rolling Stock, are affected by the Average Rolling Stock Operated. Compared to changes in the absolute size of the Group's fleet on each reporting date, this measure more accurately shows changes in the revenue generating capacity of the fleet (all of which relates to freight rail transportation services) for a particular period and significantly differs from the absolute fleet size in periods where the Group acquires or leases-in a large number of railcars. In the years ended 31 December 2009 and 2010, the Average Rolling Stock Operated increased broadly in line with changes in its Total Fleet as at the relevant year end. In 2011, Average Rolling Stock Operated was higher than the relevant year-end (excluding the Leased-out Fleet), reflecting the return of Leased-in Fleet towards the end of the year, in anticipation of new rolling stock purchases being delivered. This situation reversed in the three months ended 31 March 2012 as the Average Rolling Stock Operated decreased, compared with the three months ended 31 March 2011, due to the effect that the decrease in Leased-in Fleet towards the end of 2011 and in the three months ended 31 March 2012 had on the average level of rolling stock, before the new railcar were delivered. This was primarily the result of new railcar purchases being delivered towards the end of the period while a large share of the Leased-in Fleet replaced was returned towards the end of 2011.

The table below sets forth the Group's Average Rolling Stock Operated for the three months ended 31 March 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009. For the number of railcars engaged in the Group's rolling stock leasing business, see *"—Railcar leasing"*.

	Average Rolling Stock Operated				
	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
Gondola (open top) cars	24,151	29,904	27,183	22,543	14,600
Rail tank cars	14,769	15,336	14,869	13,855	13,298
Hopper cars	0	244	174	244	401
Locomotives	36	40	37	40	40
Flat cars	99	99	99	110	66
Total	**39,056**	**45,623**	**42,363**	**36,793**	**28,406**

Pricing conditions in the Russian rail transportation market

In the Russian rail transportation market, a key market for the Group's freight rail transportation services, the prices charged by it as a privately-owned freight rail transportation services provider are based on market supply and demand and are not regulated. However, the Group is subject to the regulated tariff for the use of Russian Railways' infrastructure and locomotive services, which is the sole operator of the Russian rail network. The Russian Railways' tariffs constitute the Group's most significant cost item and are borne by the Group when incurred in relation to Empty Runs. For loaded trips, such tariffs are a "pass through" cost for the Group. These tariffs have increased in the period under review. See *"Business—Pricing"*.

Empty Run Costs

In the period under review, the Group has managed the dispatching and routing of its fleet, particularly gondola (open top) cars, so as to make their utilisation commercially efficient on outbound as well as return journeys. This has been achieved by matching customer orders for outbound freight transportation to particular destinations with other customer freight orders for routes originating in, or with points of origin conveniently reachable from, such destinations. This matching increases the proportion of journeys for which cars are generating revenue and reduces the proportion of journeys that the railcars are empty and incurring Empty Run Costs. It also creates efficient "route loops" in which the Group's rolling stock carries cargo on some part of the return journey. The ability of the Group to find customers with cargo shipments originating in or nearby the relevant destinations, thus enhancing the commercial utilisation of the Group's rolling stock, as well as avoiding costly Empty Runs, has historically been, and currently is, an important driver of the Group's revenues and profitability. For additional information on Empty Run Costs and the Group's fleet management see *"Business—Strengths—Active fleet management"*.

The Empty Run Costs incurred by the Group in circumstances where it does not have matching customer orders for outbound and return journeys consist of the costs payable to Russian Railways for forwarding empty railcars and are currently determined by the type of cargo most recently transported in the relevant railcar. As a result, the Group also seeks to manage its Empty Run Costs by transporting cargoes which attract lower Empty Run tariffs along parts of the return routes so part of the return trip is at a lower empty run tariff. However, with effect from November 2012, the Empty Run tariffs payable to Russian Railways are expected to be unified to a single tariff (subject to certain exceptions), irrespective of the type of cargo last transported so that there will no longer be the same cost benefit to managing the fleet in this manner. The Empty Run tariff unification may result in the Group and other freight rail carriers adopting different strategies to optimise their logistics but it remains to be determined what the impact on the market and the Group will be.

The Group also seeks to manage its fleet more efficiently through the use of block trains, which are trains consisting only of the Group's rolling stock bound for the same destination. Despite block trains having higher Empty Runs, the Group has been able to achieve relatively high levels of profitability through the use of block trains because of increased turnover speeds for railcars and customers generally agreeing to bear a portion of the Empty Run Costs.

Mix of cargo

Historically, the mix of cargo in the Group's freight rail transportation business has affected its results of operations. This was because the regulated railcar tariffs for different types of cargoes that were charged by Russian Railways influenced the prices that the Group and its competitors (other than Russian Railways) could charge for the similar services. However, currently, Russian Railways no longer controls the majority of the Russian railcar fleet and prices are set by the market.

The mix of cargoes transported by the Group will, however, continue to affect its results of operations as the transportation of some cargoes have different pricing and logistics characteristics. The Group has continued to be focused on transporting metallurgical cargoes (including ferrous metals, scrap metal, iron ores) and oil products and oil due to favourable market conditions, as well as having diversified into some other types of cargoes to take advantage of market conditions and the growth in its railcar fleet.

The table below sets forth the proportion of the Group's Freight Rail Turnover by cargo type in the three months ended 31 March 2012 and the year ended 31 December 2011, 2010 and 2009.

	Freight Rail Turnover				
	Three months ended 31 March		Years ended 31 December		
	2012	2011	2011	2010	2009
			(%)		
Metallurgical cargoes (including ferrous metals, scrap metal and iron ore)	43.1	44.5	45.0	43.1	48.0
Coal (thermal and coking)	15.1	17.8	17.6	18.2	9.2
Construction materials (including cement)	5.5	3.8	4.5	2.8	2.7
Oil products and oil	31.7	28.9	27.9	30.6	37.5
Other	4.6	5.0	5.1	5.3	2.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

The MIT Acquisition will result in a significant increase in the proportion of the Group's Freight Rail Turnover represented by metallurgical cargoes, as discussed at *"—MIT Acquisition"* above.

Railcar leasing

Railcar leasing is an additional service offered by the Group, accounting for 6.5 per cent. of the Group's Adjusted Revenue in the year ended 31 December 2011 and 8.2 per cent. in the three months ended 31 March 2012.

The table below sets forth the number of the Group's Leased-out Fleet as at 31 March 2012 and 2011 and as at 31 December 2011, 2010 and 2009.

	Leased-out Fleet				
	As at 31 March		As at 31 December		
	2012	2011	2011	2010	2009
Gondola (open top) cars	1,439	820	1,089	780	775
Rail tank cars	5,821	5,359	5,551	4,887	5,101
Hopper cars	370	125	370	125	125
Locomotives	0	0	0	4	6
Flat cars	20	20	20	20	0
Total	**7,650**	**6,324**	**7,030**	**5,816**	**6,007**

The leasing of rolling stock in Russia is not regulated, so all prices are based on market supply and demand. The Group's Leased-out Fleet is comprised mainly of rail tank cars primarily leased-out into the Kazakh, Belarussian and Russian markets. Volumes of oil products and oil transported in Russia, other CIS countries and the Baltic countries are characterised by a high degree of stability, reflecting low elasticity of supply and demand for these cargoes. As a result, pricing for leasing services is characterised by low volatility, with gradually increasing leased-out rates in the period under review. See *"Business—Services—Railcar leasing"*.

Foreign currency fluctuations

The Consolidated Financial Information is presented in US Dollars, which the Group's management believes to be better understood by the principal users of the financial statements. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company, its Cypriot subsidiaries and its Russian subsidiaries is the Rouble. The Estonian and Finnish subsidiaries have the Euro as their functional currency. The Ukrainian subsidiary has the Ukrainian Hryvna as its functional currency. The results and financial position of each of the Group's entities that have a functional currency different from the presentation currency are translated into US Dollars using the official exchange rates of the central bank of the country of registration of each entity, in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", whereby assets and liabilities are translated at the closing rate prevailing at the date of the balance sheet, income and expense items are translated into US Dollars at the average annual exchange rate for each period presented which approximates the exchange rate existing at the date of the transaction. All resulting foreign currency exchange rate differences are recognised in other comprehensive income.

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

The Group expects that some portion of its non-current borrowings will continue to be US Dollar-denominated, as some of the Group's revenue is denominated in US Dollars and the Group believes that interest rates for US Dollar-denominated non-current borrowings will continue to be more commercially attractive than those for Rouble-denominated non-current borrowings.

The Group does not hedge its exposure to foreign currency fluctuations. Accordingly, any future appreciation of the US Dollar against the functional currencies of Group members (the Rouble, Euro and Ukrainian Hryvna) could negatively affect the Group's US Dollar results, due to, for example, the recognition of foreign exchange losses on its US Dollar-denominated borrowings.

Recent Developments

Since 31 March 2012, the Group has continued to perform in line with management's expectations, and management believes that the financial and performance outlook for the remainder of the year is also in line with its expectations. In addition, the following significant developments have occurred.

- The Group completed the MIT Acquisition in May 2012. See *"—Key Factors Affecting the Group's Financial Condition and Results of Operations—MIT Acquisition"*, *"Business and Financial Information of MIT"* and *"Unadited Pro Forma Financial Information"*. In connection with the MIT Acquisition, in April 2012, the Group entered into and drew down in full a three-year floating rate USD 400 million secured credit facility with Sberbank. See also "Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility".
- In the period between 1 April 2012 and 5 July 2012, the Group has taken delivery of 6,616 railcars. Under existing contractual arrangements, the Group expects to take delivery of a further 817 units by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). In connection with those new rolling stock acquisitions, in the same period, the Group has borrowed a total of USD 502,557 thousand from financial institutions under existing and new facilities.

Results of Operations

In its freight rail transportation business, the Group's revenue and cost of sales as reported under EU IFRS, are impacted by the type of contract entered into by its customers. The Group generally offers its customers three types of contracts: (a) a "lump sum" contract pursuant to which the customer is charged a single price for the Group's services, and the infrastructure and locomotive tariffs payable to Russian Railways are borne by the Group, and the customer has no interaction with Russian Railways; (b) a "railcar charge only" contract pursuant to which the customer pays only the railcar charge to the Group, and the infrastructure and locomotive charges for the loaded trip are payable by the customer to Russian Railways directly; and (c) another "railcar charge only" contract pursuant to which the Group pays the infrastructure and locomotive tariffs to Russian Railways and recharges the amount to the customer as a reimbursement.

As a result, the Group's revenue, cost of sales and gross margins, as reported under EU IFRS can be significantly impacted by the type of contract entered into by new customers and changes in the mix of such contracts with existing customers. In particular, while an increase in the proportion of "lump sum" contracts is likely to increase the Group's revenue, it will also increase its cost of sales, because the relevant infrastructure and locomotive tariffs will be borne by the Group; conversely the infrastructure and locomotive tariffs associated with "railcar charge only" contracts are not reflected in the Group's accounts.

Description of key income statement line items

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

Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

To date, the Group has derived its revenue from freight rail transportation—operators services (tariff borne by the Group) and rail transportation—operators services (tariff borne by the client) provided by the Group as well as from leasing of rolling stock, freight forwarding and other revenue. For the purpose of the further discussion and analysis of revenue, management believes that additional non-GAAP financial measures such as Adjusted Revenue showing the Group's revenue adjusted for "pass through" infrastructure and locomotive tariffs and Net Revenue from Operation of Rolling Stock showing the net revenue generated from the operation of rolling stock better demonstrate trends in the Group's business. Adjusted Revenue is calculated as total revenue—operator's services plus total revenue—operating lease and other revenue less infrastructure and locomotive tariffs: loaded trips. Net Revenue from Operation of Rolling Stock is defined as the sum of revenue from railway transportation—operator's services (tariff borne by the Group) and revenue from railway transportation—operator's services (tariff borne by the client) less infrastructure and locomotive tariffs: loaded trips. Infrastructure and locomotive tariffs: loaded trips are in principle a "pass through" for the Group as they are paid by the Group, on behalf of customers, to Russian Railways.

Cost of sales

Cost of sales comprises costs related to the provision of railway transportation services, railcar leasing and other ancillary services to customers. The majority of the cost of sales can be attributed to tariffs for infrastructure and locomotive services provided by Russian Railways for both outbound loaded trips and return Empty Runs. Infrastructure and locomotive tariffs for loaded trips are charged by Russian Railways to the Group for customers having "lump sum" contracts with the Group and are a "pass through" for the Group. "Infrastructure and locomotive tariffs: empty run trips and services provided by other transportation organisations" includes the costs payable to Russian Railways for forwarding empty railcars and constitute the key cost item for the Group. Operating lease costs for rolling stock, repair and maintenance of rolling stock and depreciation of rolling stock are the other significant costs included within cost of sales. Employee costs associated with rail transportation, freight forwarding and leasing operations are also items included in cost of sales.

Selling, marketing and administrative expenses

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

Income tax expense

For the annual periods presented income taxes are calculated based on the tax legislation applicable to the respective countries of residence of the Company and each member of the Group, as the case may be. For the three months ended 31 March 2012 and 2011, income tax expense is recognised in accordance with IAS 34 "Interim Financial Reporting", based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. Adjustments due to changes in estimates of prior year taxes are not taken into account in the calculation of the estimated average annual tax rate but are charged in full in the interim period in which it becomes probable that such adjustment is needed.

The Company is based and organised in Cyprus, while its subsidiaries are based and organised in Russia, Estonia, Finland and Ukraine. The Company is subject to corporation tax on taxable profits at the rate of 10 per cent. Under certain conditions, interest may be exempt from income tax and be subject to defence contribution at the rate of 10 per cent. for interest earned until 31 August 2011 and 15 per cent thereafter. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15 per cent., increased to 17 per cent. from 31 August 2011 and increased to 20 per cent. from 1 January 2012.

Withholding tax is applied to dividends distributed to the Company by its Russian subsidiaries at the rate of 5 per cent. on gross dividends declared, such tax is withheld at source by the relevant 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 or liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 21 per cent. (until 31 December 2009: 21 per cent.) of the gross dividend paid. Therefore, the applicable income tax rate for the Estonian subsidiaries is zero per cent. For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25 per cent. until 31 March 2011 and at a tax rate of 23 per cent. thereafter.

During 2009, 2010 and 2011 the Russian subsidiaries were subject to a tax rate of 20 per cent.

The Group has not recognised any tax in relation to other comprehensive income as all elements of other comprehensive income are not subject to tax.

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

Results of operations for the three months ended 31 March 2012 and 2011

The following table sets forth the principal components of the Group's consolidated income statement for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March	
	2012	**2011**
	(unaudited) (USD in thousands)	
Revenue	452,551	440,903
Cost of sales	(300,151)	(317,599)
Gross profit	**152,400**	**123,304**
Selling and marketing costs	(839)	(694)
Administrative expenses	(17,991)	(17,785)
Other gains—net	36	879
Operating profit	**133,606**	**105,704**
Finance income	(1,049)	(4,978)
Finance costs	(7,290)	(3,620)
Finance costs—net	**(8,339)**	**(8,598)**
Share of profit of associates	14	126
Profit before income tax	**125,281**	**97,232**
Income tax expense	(30,718)	(21,539)
Profit for the period	**94,563**	**75,693**
Attributable to:		
Owners of the Company	**80,017**	**61,355**
Non-controlling interest	14,546	14,338
	94,563	**75,693**

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

Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

The following table sets forth revenue, broken down by area of revenue-generating activity of the Group and reconciliation of Adjusted Revenue and Net Revenue from Operation of Rolling Stock to it for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March	
	2012	**2011**
	(unaudited) (USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	252,726	241,795
Railway transportation—operators services (tariff borne by the client)	173,726	180,820
Railway transportation—freight forwarding	708	678
Operating leasing of rolling stock	24,923	17,353
Other	468	257
Revenue	**452,551**	**440,903**
Infrastructure and locomotive tariffs: loaded trips	(147,700)	(151,261)
Adjusted Revenue	**304,851**	**289,642**

	Three months ended 31 March	
	2012	**2011**
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	252,726	241,795
Railway transportation—operators services (tariff borne by the client)	173,726	180,820
Infrastructure and locomotive tariffs: loaded trips	(147,700)	(151,261)
Net Revenue from Operation of Rolling Stock	**278,752**	**271,354**

Revenue increased by USD 11,648 thousand, or 2.6 per cent., from USD 440,903 thousand in the three months ended 31 March 2011 to USD 452,551 thousand in the three months ended 31 March 2012. The increase in the Group's revenue was driven primarily by an increase in the Group's Adjusted Revenue. The aggregated amount of revenue from railway transportation—operators services (tariff borne by the Group) and revenue from railway transportation—operators services (tariff borne by the client) increased by an aggregate of USD 3,837 thousand, or 0.9 per cent., primarily due to the reasons for the increase in Net Revenue from Operation of Rolling Stock and the decrease in infrastructure and locomotive tariffs—loaded trips discussed below.

Infrastructure and locomotive tariffs—loaded trips (which is included in equal amounts both in the Group's revenue and cost of sales) decreased from USD 151,261 thousand to USD 147,700 thousand as clients increasingly opted to pay infrastructure and locomotive charges directly to Russian Railways (reducing the share of "lump sum" (tariff borne by the Group) contracts).

Adjusted Revenue increased by USD 15,209 thousand, or 5.3 per cent., from USD 289,642 thousand in the three months ended 31 March 2011 to USD 304,851 thousand in the three months ended 31 March 2012.

Net Revenue from Operation of Rolling Stock, the largest component of Adjusted Revenue, increased by USD 7,398 thousand, or 2.7 per cent., from USD 271,354 thousand in the three months ended 31 March 2011 to USD 278,752 thousand in the three months ended 31 March 2012. This increase reflects an increase in the Average Price Per Trip by 20 per cent. to USD 1,090 compared to the three months ended 31 March 2011, which was offset by a 14 per cent. decrease in the Average Rolling Stock Operated reflecting a significant decrease in the number of Leased-in Fleet ahead of new railcar deliveries in the second half of 2011 and the first three months of 2012. Average Number of Loaded Trips per Railcar remained stable at 6.5 trips in the first three months of 2012 compared to the same period of the previous year despite an increase in Average Distance of Loaded Trips by 3 per cent. in the same period.

Revenue from operating leasing of rolling stock, the second largest component of Adjusted Revenue, increased by 43.6 per cent. from USD 17,353 thousand in the three months ended 31 March 2011 to USD 24,923 thousand in the three months ended 31 March 2012 reflecting the increase in lease rates as well as increase in the number of railcars in the Leased-out Fleet over the period.

Total cost of sales, selling and marketing costs and administrative expenses

The following table sets forth a breakdown of the total cost of sales, selling and marketing costs and administrative expenses for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March	
	2012	**2011**
	(unaudited) (USD in thousands)	
Depreciation of property, plant and equipment	19,379	18,668
Amortisation of intangible assets	44	44
Loss on sale of property, plant and equipment	287	(1,031)
Employee benefit expense	12,529	11,963
Impairment charge for receivables	(124)	95
Operating lease rentals—rolling stock	19,750	42,192
Operating lease rentals—office	1,255	1,243
Repairs and maintenance	18,929	17,157
Fuel and spare parts—locomotives	9,229	7,985
Engagement of locomotive crews	3,065	3,053
Infrastructure and locomotive tariffs:		
Loaded trips	147,700	151,261
Empty run trips, other tariffs and services provided by other transportation organisations	74,600	71,697
Including Empty Run Costs	*59,504*	*61,254*
Auditors' remuneration	452	306
Legal, consulting and other professional fees	727	1,077
Advertising and promotion	132	81
Communication costs	267	255
Information services	398	381
Taxes (other than income tax and value added taxes)	5,114	4,975
Other expenses	5,248	4,676
Total cost of sales, selling and marketing costs and administrative expenses	**318,981**	**336,078**

Total costs of sales, selling and marketing costs and administrative expenses decreased by USD 17,097 thousand, or 5.1 per cent., from USD 336,078 thousand in the three months ended 31 March 2011 to USD 318,981 thousand in the three months ended 31 March 2012. This decrease was primarily due to the factors described below.

Infrastructure and locomotive tariffs: loaded trips (which is included in equal amounts both in the Group's revenue and cost of sales) decreased from USD 151,261 thousand in the three months ended 31 March 2011 to USD 147,700 thousand in the three months ended 31 March 2012 as clients increasingly opted to pay infrastructure and locomotive charges directly to Russian Railways (reducing the share of "lump sum" (tariff borne by the Group) contracts).

Infrastructure and locomotive tariffs: Empty run trips, other tariffs and services provided by other transportation organisations increased by 4.0 per cent from USD 71,697 thousand in the three months ended 31 March 2011 to USD 74,600 thousand in the three months ended 31 March 2012. This increase was driven primarily by a 44.6 per cent. increase in other tariffs and services provided by other transportation organisations, from USD 10,443 thousand for the three months ended 31 March 2011 to USD 15,096 thousand for the three months ended 31 March 2012, reflecting the increased use of Engaged Fleet to satisfy client demand in excess of the Group's own capacity, offset in part by a 2.9 per cent. decrease in Empty Run Costs, from USD 61,254 thousand for the three months ended 31 March 2011 to USD 59,504 thousand for the three months ended 31 March 2012. The decrease in Empty Run Costs was primarily driven by a combination of a 9.6 per cent. decline in the Group's Freight Rail Turnover (reflecting a 14.4 per cent. decrease in the Group's Average Rolling Stock Operated over the period), a 6 per cent. increase in Russian Railways' regulated tariff for the traction of empty railcars effective from 1 January 2012 (according to the Russian Federal Tariff Service (***FTS***)), an increase in Total Empty Run Ratio from 63 per cent. in the three months ended 31 March 2011 to 66 per cent. in the three months ended 31 March 2012 primarily due to an increase in Empty Run Ratio for gondola (open top) cars from 44 per cent. in the three months ended 2011 to 45 per cent. in the three months ended 31 March 2012 and a reduction in the proportion of gondola (open top) cars in the Group's Total Fleet (due to a significant decrease in the number of leased-in railcars). The Share of Empty Run Kilometres Paid by the Group remained stable at 78 per cent. for the periods.

Operating lease rentals—rolling stock decreased by 53.2 per cent. from USD 42,192 thousand in the three months ended 31 March 2011 to USD 19,750 thousand in the three months ended 31 March 2012 reflecting a significant decline in the number of railcars leased-in from third parties over the period, which was partially offset by increased lease rates.

Repairs and maintenance costs increased by 10.3 per cent. from USD 17,157 thousand in the three months ended 31 March 2011 to USD 18,929 thousand in the three months ended 31 March 2012 primarily reflecting cost inflation for repair works and spare parts, as well as an increase in the number of ad-hoc repairs.

Employee benefit expense increased by 4.7 per cent. from USD 11,963 thousand in the three months ended 31 March 2011 to USD 12,529 thousand in the three months ended 31 March 2012 driven by general wage inflation and an increase in the average number of employees over the period.

Fuel and spare parts—locomotives increased by USD 1,244 thousand, or 15.6 per cent., from USD 7,985 thousand in the three months ended 31 March 2011 to USD 9,229 thousand in the three months ended 31 March 2012 primarily due to an increase in fuel prices.

Taxes (other than income tax and VAT) increased by USD 139 thousand, or 2.8 per cent., from USD 4,975 thousand in the three months ended 31 March 2011 to USD 5,114 thousand in the three months ended 31 March 2012 primarily due to an increase in the amount of property tax payable on the Group's Owned Fleet (other than railcars leased-in under finance leases) reflecting the increase in its size.

Depreciation of property, plant and equipment increased by USD 711 thousand, or 3.8 per cent., from USD 18,668 thousand in the three months ended 31 March 2011 to USD 19,379 thousand in the three months ended 31 March 2012 primarily due to the increase in the size of the Group's Owned Fleet.

Other gains—net

Other gains—net decreased by USD 843 thousand, from USD 879 thousand in the three months ended 31 March 2011 to USD 36 thousand in the three months ended 31 March 2012, primarily as a result of increased net foreign exchange transaction losses on non-financing activities from USD 495 thousand in the three months ended 31 March 2011 to USD 1,239 thousand in the three months ended 31 March 2012.

Operating profit

The Group's operating profit increased by USD 27,902 thousand, or 26.4 per cent., from USD 105,704 thousand in the three months ended 31 March 2011 to USD 133,606 thousand in the three months ended 31 March 2012, as a result of the factors discussed above.

Finance income

Finance income increased by USD 3,929 thousand or 78.9 per cent., from a negative amount of USD 4,978 thousand in the three months ended 31 March 2011 to a negative amount of USD 1,049 thousand in the three months ended 31 March 2012. This increase was primarily due to a decrease in net foreign exchange transaction losses on cash and cash equivalents and finance lease receivable, from a negative amount of USD 6,425 thousand in the three months ended 31 March 2011 to a negative amount of USD 1,910 thousand, as finance lease receivables (which generated foreign exchange losses in the three months ended 31 March 2011) were repaid by the relevant lessee in the second half of 2011. In addition, the amount of cash and cash equivalents in foreign currencies was lower in the three months ended 31 March 2012.

Finance costs

The following table sets forth a breakdown of finance costs for the three months ended 31 March 2012 and 2011.

	Three months ended 31 March	
	2012	2011
	(unaudited) (USD in thousands)	
Interest expense:		
Bank borrowings	(6,593)	(7,026)
Non-convertible bond	(4,026)	(2,271)
Finance leases	(668)	(1,730)
Other finance costs	(74)	(118)
Total interest expense	**(11,361)**	**(11,145)**
Net foreign exchange transaction gains/(losses) on borrowings	4,071	8,051
Finance cost on liability for minimum dividend distribution	—	(526)
Finance costs	**(7,290)**	**(3,620)**

Finance costs increased by USD 3,670 thousand, or 101.4 per cent., from USD 3,620 thousand in the three months ended 31 March 2011 to USD 7,290 thousand in the three months ended 31 March 2012, primarily due to a decrease in net foreign exchange transaction gains on borrowings, partially offset by a decrease in interest expense on bank borrowings and finance leases.

Total interest expense increased by USD 216 thousand, or 1.9 per cent., to USD 11,361 thousand for the three months ended 31 March 2012 from USD 11,145 thousand for the three months ended 31 March 2011. This increase was primarily due to an increase of USD 1,755 thousand, or 77.3 per cent., in interest expense: non-convertible bond, due to the issue of new RUB 10 billion 3-year Rouble-denominated bonds in March 2012. This was partially offset by a decrease of USD 1,062 thousand, or 61.4 per cent., in interest expense: finance leases due to a reduction in the Group's lease liabilities during the course of 2011.

Net foreign exchange transaction gains on borrowings decreased by USD 3,980 thousand, or 49.4 per cent., to USD 4,071 thousand for the three months ended 31 March 2012 from USD 8,051 thousand for the three months ended 31 March 2011 due to a decrease in the average amount of US Dollar denominated borrowings during the three months ended 31 March 2012 compared to the three months ended 31 March 2011.

Finance cost on liability for minimum dividend distribution decreased from USD 526 thousand for the three months ended 31 March 2011 to nil for the three months ended 31 March 2012. This cost arose due to the obligation to pay certain minimum amounts under the shareholders' agreement relating to BTS, and this obligation was cancelled in the second half of 2011 upon the acquisition of a further 10 per cent. interest in BTS by the Group. The amount recognised for the three months ended 31 March 2011 relates to the amount accrued in respect of that obligation for the first quarter of that year.

Share of profit of associates

The share of profit of associates decreased by USD 112 thousand, or 88.9 per cent., to USD 14 thousand in the three months ended 31 March 2012 from USD 126 thousand in the three months ended 31 March 2011, as a result of decreased profitability of Daugavpils Lokomtivju Remonta Rupnica, an associate of AS Spacecom.

Profit before income tax

Profit before income tax increased by USD 28,049 thousand or 28.8 per cent., from USD 97,232 thousand in the three months ended 31 March 2011 to USD 125,281 thousand in the three months ended 31 March 2012 as a result of the above factors.

Income tax expense

Income tax expense increased by USD 9,179 thousand, or 42.6 per cent., from USD 21,539 thousand in the three months ended 31 March 2011 to USD 30,718 thousand in the three months ended 31 March 2012. This increase is primarily due to a change of intention for the distribution of profits of one of the Russian subsidiaries of the Group, whereby it is now probable that dividends will be paid out of current and prior year profits, which are currently subject to 5 per cent. dividend withholding tax. As a result of this change, a one-off deferred tax provision of USD 4,361 thousand (relating to profits earned in prior periods) and a tax provision of USD 2,218 thousand (relating to current year profits) was recognised, representing the applicable tax on the earnings of that subsidiary in 2011 and the three months ended 31 March 2012. In addition, an increase in profit before tax resulted in a higher income tax expense.

For the three months ended 31 March 2012 income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ended 31 December 2012 is 21.0 per cent. and does not include the deferred tax provision discussed immediately above (for 2011 it was 22.2 per cent.).

Results of operations for the years ended 31 December 2011 and 2010

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	**2010**
	(USD in thousands)	
Revenue	1,733,056	1,382,670
Cost of sales	(1,210,827)	(981,428)
Gross profit	**522,229**	**401,242**
Selling and marketing costs	(3,088)	(2,692)
Administrative expenses	(90,317)	(72,225)
Other gains—net	3,140	3,048
Operating profit	**431,964**	**329,373**
Finance income	7,362	7,203
Finance costs	(39,935)	(53,109)
Finance costs—net	**(32,573)**	**(45,906)**
Share of profit of associates	428	206
Profit before income tax	**399,819**	**283,673**
Income tax expense	(82,593)	(57,733)
Profit for the year	**317,226**	**225,940**
Attributable to:		
Owners of the Company	266,423	177,322
Non-controlling interest	50,803	48,618
	317,226	**225,940**

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

Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

The following table sets forth revenue, broken down by area of revenue-generating activity of the Group and reconciliation of Adjusted Revenue and Net Revenue from Operation of Rolling Stock to it for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	2010
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	929,945	810,661
Railway transportation—operators services (tariff borne by the client)	721,850	499,052
Railway transportation—freight forwarding	3,422	1,858
Operating leasing of rolling stock	76,555	70,539
Other	1,284	560
Revenue	**1,733,056**	**1,382,670**
Infrastructure and locomotive tariffs: loaded trips	(556,030)	(479,671)
Adjusted Revenue	**1,177,026**	**902,999**

	Years ended 31 December	
	2011	2010
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	929,945	810,661
Railway transportation—operators services (tariff borne by the client)	721,850	499,052
Infrastructure and locomotive tariffs: loaded trips	(556,030)	(479,671)
Net Revenue from Operation of Rolling Stock	**1,095,765**	**830,042**

The Group recorded revenue of USD 1,733,056 thousand for the year ended 31 December 2011, an increase of USD 350,386 thousand, or 25.3 per cent., from USD 1,382,670 thousand for the year ended 31 December 2010 driven primarily by an increase in the Group's Adjusted Revenue. Revenue from railway transportation—operators services (tariff borne by the Group) and revenue from railway transportation—operators services (tariff borne by the client) increased by an aggregate of USD 342,082 thousand, or 26.1 per cent., primarily due to the reasons for the increase in Net Revenue from Operation of Rolling Stock and the increase in infrastructure and locomotive tariffs—loaded trips discussed below.

Infrastructure and locomotive tariffs: loaded trips (which is included in equal amounts both in the Group's revenue and cost of sales) increased by USD 76,359 thousand, or 15.9 per cent., from USD 479,671 thousand for the year ended 31 December 2011 to USD 556,030 thousand primarily due to the overall increase in the Group's business volumes as well as the annual increase in regulated tariff for services provided by Russian Railways.

Adjusted Revenue increased by USD 274,027 thousand, or 30.3 per cent to USD 1,177,026 thousand for the year ended 31 December 2011 compared to USD 902,999 thousand for the year ended 31 December 2010.

Net Revenue from Operation of Rolling Stock, the largest component of Adjusted Revenue, increased by USD 265,723 thousand, or 32.0 per cent., to USD 1,095,765 thousand for the year ended 31 December 2011 compared to USD 830,042 thousand for the year ended 31 December 2010, primarily as a result of an increase of 15.1 per cent. in the Average Rolling Stock Operated to 42,363 units, an increase of 26.0 per cent. to USD 970.8 in the Average Price Per Trip, and partially offset by a decrease of 9.0 per cent. to 26.6 trips in the Average Number of Loaded Trips per Railcar and a 6.2 per cent increase in the Average Distance of Loaded Trips.

Revenue from operating leasing of rolling stock increased by USD 6,016 thousand, or 8.5 per cent., primarily due to increases in lease rates for rolling stock leased to clients, partially offset by a decrease in the average number of rolling stock leased-out during 2011, compared to 2010.

Total cost of sales, selling and marketing costs and administrative expenses

The following table sets forth a breakdown of the total cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	**2010**
	(USD in thousands)	
Depreciation of property, plant and equipment	75,052	63,017
Amortisation of intangible assets	179	173
Loss on sale of property, plant and equipment	1,244	2,041
Employee benefit expense	62,183	46,440
Impairment charge for receivables	125	1,474
(Reversal of)/ impairment charge for property, plant and equipment	(172)	(650)
Operating lease rentals—rolling stock	132,570	87,469
Operating lease rentals—office	4,820	4,362
Repairs and maintenance	76,243	63,673
Fuel and spare parts—locomotives	27,708	21,261
Engagement of locomotive crews	12,684	11,296
Infrastructure and locomotive tariffs:		
Loaded trips	556,030	479,671
Empty run trips, other tariffs and services provided by other transportation organisations	299,384	232,586
Including Empty Run Costs	*233,790*	*203,386*
Auditors' remuneration	1,362	1,262
Legal, consulting and other professional fees	9,341	3,298
Advertising and promotion	554	570
Communication costs	1,122	1,078
Information services	1,637	1,385
Taxes (other than income tax and value added taxes)	19,533	16,141
Other expenses	22,633	19,798
Total cost of sales, selling and marketing costs and administrative expenses	**1,304,232**	**1,056,345**

Total cost of sales, selling and marketing costs and administrative expenses increased by USD 247,887 thousand, or 23.5 per cent., from USD 1,056,345 thousand for the year ended 31 December 2010 to USD 1,304,232 thousand for the year ended 31 December 2011. This increase was primarily due to the factors described below.

Infrastructure and locomotive tariffs: loaded trips increased by USD 76,359 thousand, or 15.9 per cent., primarily due to the overall increase in the Group's business volumes as well as the annual increase in regulated tariff for services provided by Russian Railways.

Infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations increased by USD 66,798 thousand, or 28.7 per cent. primarily due to an increase in Empty Run Costs by USD 30,405 thousand, or 14.9 per cent., from USD 203,386 thousand for the year ended 31 December 2010 to USD 233,790 thousand for the year ended 31 December 2011, reflecting an increase in overall business volumes (the Group's Freight Rail Turnover increased by 14 per cent. year on year in 2011), an increase in the regulated tariff for the traction of empty railcars of 8 per cent. from 1 January 2011 (according to the FTS), offset by a decrease in the share of Empty Run Kilometres Paid by the Group to 78 per cent. for 2011 from 82 per cent. for 2010 reflecting the increased use of block trains to transport coal and iron ore (for which clients pay for Empty Runs directly to Russian Railways). The Total Empty Run Ratio remained at 62 per cent. for 2011 and 2010. The stable Total Empty Run Ratio reflected a decrease in the Empty Run Ratio for gondola (open top) cars to 41 per cent. for 2011 from 42 per cent. for 2010 offset by an increase in the Empty Run Ratio for rail tank and hopper cars to 111 per cent. for 2011 from 108 per cent. for 2010 primarily due to changed logistics in the transportation of oil products and oil. Also contributing to the increase in infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations was the increased use of Engaged Fleet to satisfy client demand in excess of the Group's own capacity, and an increase in tariffs incurred by the Group when transporting railcars to/from repairs and maintenance arising from the increase in the size of the Group's Owned Fleet.

Operating lease rentals—rolling stock increased by USD 45,101 thousand, or 51.6 per cent., from USD 87,469 thousand for the year ended 31 December 2010 to USD 132,570 thousand for the year ended 31 December 2011 primarily due to an increase in the average number of railcars leased-in during 2011 compared to 2010, as well as a substantial increase in the leased-in rates.

Repair and maintenance increased by USD 12,570 thousand, or 19.7 per cent., from USD 63,673 thousand for the year ended 31 December 2010 to USD 76,243 thousand for the year ended 31 December 2011 primarily due to cost inflation for repair works and spare parts as well as an increase in the average Owned Fleet size.

Employee benefit expense increased by USD 15,743 thousand, or 33.9 per cent., from USD 46,440 thousand for the year ended 31 December 2010 to USD 62,183 thousand for the year ended 31 December 2011 primarily due to increase in the average number of employees of the Group, wage inflation, an increase in the Russian unified social tax rate and results-linked bonuses.

Fuel and spare parts—locomotives increased by USD 6,447 thousand, or 30.3 per cent., from USD 21,261 thousand for the year ended 31 December 2010 to USD 27,708 thousand for the year ended 31 December 2011 primarily due to a significant increase in fuel prices.

Engagement of locomotive crews increased by USD 1,388 thousand, or 12.3 per cent., from USD 11,296 thousand for the year ended 31 December 2010 to USD 12,684 thousand for the year ended 31 December 2011 primarily due to an increase in the volume of this service, with relatively stable pricing.

Legal, consulting and other professional fees increased by USD 6,043 thousand, or 183.2 per cent., from USD 3,298 thousand for the year ended 31 December 2010 to USD 9,341 thousand for the year ended 31 December 2011 resulting from several non-recurring expenses associated with the investigation of potential investment opportunities and related proposed financing.

Taxes (other than income tax and VAT) increased by USD 3,392 thousand, or 21.0 per cent., from USD 16,141 thousand for the year ended 31 December 2010 to USD 19,533 thousand for the year ended 31 December 2011 due to an increase in the amount of property tax payable on the Group's Owned Fleet (other than leased-in under finance leases) reflecting the increase in its size.

Depreciation of property, plant and equipment increased by USD 12,035 thousand, or 19.1 per cent., from USD 63,017 thousand for the year ended 31 December 2010 to USD 75,052 thousand for the year ended 31 December 2011 primarily due to the increase in the size of the Group's Owned Fleet.

Other gains—net

Other gains—net increased by USD 92 thousand, from USD 3,048 thousand for the year ended 31 December 2010 to USD 3,140 thousand for the year ended 31 December 2011, primarily as a result of an increase of USD 3,634 thousand, or 129.7 per cent., in other gains mainly due to a significant increase in the amounts received as penalties from clients for the idle time of railcars while being loaded/unloaded, offset by other losses, which increased by USD 3,931 thousand mainly due to the amount recognised in relation to the claim brought by Eesti Raudtee (Estonian Railways) against a Group member, the outcome of which was determined in 2011 net of the indemnification received from TIHL. The proportion that was not indemnified by TIHL was wholly attributable to the non-controlling interest in that Group member.

Operating profit

The Group's operating profit amounted to USD 431,964 thousand for the year ended 31 December 2011, an increase of USD 102,591 thousand or 31.1 per cent. compared to the year ended 31 December 2010 as a result of the factors discussed above.

Finance income

Finance income increased by USD 159 thousand, or 2.2 per cent., to USD 7,362 thousand for the year ended 31 December 2011 from USD 7,203 thousand for the year ended 31 December 2010, primarily as a result of an increase in interest income on bank balances and short term bank deposits, reflecting the larger amount of cash on hand during 2011, partially offset by a decrease in interest income from finance leases as the relevant lease arrangements were terminated before their scheduled maturity by the relevant client and the absence of amortisation of financial guarantees in 2011 due to the termination in 2010 of a guarantee provided by a Group member in favour of a third party's indebtedness.

Finance costs

The following table sets forth a breakdown of finance costs for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	**2010**
	(USD in thousands)	
Interest expense:		
Bank borrowings	(23,313)	(24,951)
Non-convertible bond	(8,424)	(3,906)
Finance leases	(4,325)	(13,524)
Other interest—related parties	—	(348)
Other finance costs	(664)	(927)
Total interest expense	**(36,726)**	**(43,656)**
Net foreign exchange transaction losses on financing activities	(2,046)	(7,450)
Finance cost on liability for minimum dividend distribution	(1,163)	(2,003)
Finance costs	**(39,935)**	**(53,109)**

Finance costs decreased by USD 13,174 thousand, or 24.8 per cent., to USD 39,935 thousand for the year ended 31 December 2011 from USD 53,109 thousand for the year ended 31 December 2010, primarily due to a decrease in interest expense, net foreign exchange transaction losses on financing activities and finance cost on liability for minimum dividend distribution.

Total interest expense decreased by USD 6,930 thousand, or 15.9 per cent., to USD 36,726 thousand for the year ended 31 December 2011 from USD 43,656 thousand for the year ended 31 December 2010. This decrease was primarily due to a decrease of USD 9,199 thousand, or 68.0 per cent., in interest expense: finance leases due to a reduction in the Group's lease liabilities during the course of 2010 when finance leases were largely refinanced with the proceeds from non-convertible 5-year Rouble-denominated bonds issued in July 2010. This was partially offset by an increase of USD 4,518 thousand, or 115.7 per cent., in interest expense: non-convertible bond, due to the full year effect in 2011 of interest on those Rouble-denominated bonds.

Net foreign exchange transaction losses on financing activities decreased by USD 5,404 thousand, or 72.5 per cent., to USD 2,046 thousand for the year ended 31 December 2011 from USD 7,450 thousand for the year ended 31 December 2010 due to a decrease in the Group's total US dollar-denominated liabilities partly offset by assets and income denominated in US dollars as at 31 December 2011 compared to the amounts as at 31 December 2010.

Finance cost on liability for minimum dividend distribution decreased by USD 840 thousand, or 41.9 per cent., to USD 1,163 thousand for the year ended 31 December 2011 from USD 2,003 thousand for the year ended 31 December 2010. This cost arises due to the obligation to pay certain minimum amounts under the shareholders' agreement relating to BTS. This obligation was cancelled in the second half of 2011 upon the acquisition of a further 10 per cent. interest in BTS by the Group. The amount recognised for 2011 relates to the amount accrued in respect of that obligation for the first half of the year.

Share of profit of associates

The share of profit of associates increased by USD 222 thousand, or 107.8 per cent., to USD 428 thousand for the year ended 31 December 2011 from USD 206 thousand for the year ended 31 December 2010, reflecting the Group's share of the profit of Daugavpils Lokomtivju Remonta Rupnica, an associate of AS Spacecom.

Profit before income tax

Profit before income tax increased by USD 116,146 thousand, or 40.9 per cent., to USD 399,819 thousand for the year ended 31 December 2011 from USD 283,673 thousand for the year ended 31 December 2010 due to the factors discussed above.

Income tax expense

Income tax expense increased by USD 24,860 thousand, or 43.1 per cent., to USD 82,593 thousand for the year ended 31 December 2011 from USD 57,733 thousand for the year ended 31 December 2010. This relates to an increase in profit before income tax due to the reasons given above and an increase in the weighted average applicable tax rate to 18.4 per cent. for the year ended 31 December 2011 from 17.8 per cent. for the year ended 31 December 2010. The change in the weighted average tax rate was primarily due to an increase in the profitability of the Group's Russian subsidiaries (which are taxed at a corporate tax rate of 20 per cent.) compared to the Estonian subsidiaries (which have a zero applicable tax rate).

Results of operations for the years ended 31 December 2010 and 2009

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2010 and 2009.

	Years ended 31 December	
	2010	**2009**
	(USD in thousands)	
Revenue	1,382,670	1,163,407
Cost of sales	(981,428)	(874,152)
Gross profit	**401,242**	**289,255**
Selling and marketing costs	(2,692)	(2,181)
Administrative expenses	(72,225)	(58,793)
Other gains—net	3,048	785
Operating profit	**329,373**	**229,066**
Finance income	7,203	5,886
Finance costs	(53,109)	(84,559)
Finance costs—net	**(45,906)**	**(78,673)**
Share of profit of associates	206	461
Profit before income tax	**283,673**	**150,854**
Income tax expense	(57,733)	(29,681)
Profit for the year	**225,940**	**121,173**
Attributable to:		
Owners of the Company	177,322	88,057
Non-controlling interest	48,618	33,116
	225,940	**121,173**

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

Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

The following table sets forth revenue, broken down by area of revenue-generating activity of the Group and reconciliation of Adjusted Revenue and Net Revenue from Operation of Rolling Stock to it for the years ended 31 December 2010 and 2009.

	Years ended 31 December	
	2010	2009
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	810,661	815,998
Railway transportation—operators services (tariff borne by the client)	499,052	280,632
Railway transportation—freight forwarding	1,858	265
Operating leasing of rolling stock	70,539	65,383
Sale of wagons and locomotives	—	189
Other	560	940
Revenue	**1,382,670**	**1,163,407**
Infrastructure and locomotive tariffs: loaded trips	(479,671)	(478,152)
Adjusted Revenue	**902,999**	**685,255**

	Years ended 31 December	
	2010	2009
	(USD in thousands)	
Railway transportation—operators services (tariff borne by the Group)	810,661	815,998
Railway transportation—operators services (tariff borne by the client)	499,052	280,632
Infrastructure and locomotive tariffs: loaded trips	(479,671)	(478,152)
Net Revenue from Operation of Rolling Stock	**830,042**	**618,478**

The Group recorded revenue of USD 1,382,670 thousand for the year ended 31 December 2010, an increase of USD 219,263 thousand, or 18.8 per cent., from USD 1,163,407 thousand for the year ended 31 December 2009. This increase in the Group's revenue was driven primarily by the increase in the Group's Adjusted Revenue. The aggregated amount of revenue from railway transportation—operators services (tariff borne by the Group) and revenue from railway transportation—operators services (tariff borne by the client) increased by an aggregate of USD 213,083 thousand, or 19.4 per cent., primarily due to the reasons for the increase in Net Revenue from Operation of Rolling Stock and the increase in infrastructure and locomotive tariffs—loaded trips discussed below.

Infrastructure and locomotive tariffs: loaded trips (which is included in equal amounts both in the Group's revenue and cost of sales) increased by USD 1,519 thousand, or 0.3 per cent., from USD 478,152 thousand for the year ended 31 December 2009 to USD 479,671 thousand for the year ended 31 December 2010 primarily due to the overall increase in business volumes as well as the annual increase in regulated tariff for services provided by Russian Railways.

Adjusted Revenue increased by USD 217,744 thousand, or 31.8 per cent to USD 902,999 thousand for the year ended 31 December 2010 compared to USD 685,255 thousand for the year ended 31 December 2009.

Net Revenue from Operation of Rolling Stock, the largest component of Adjusted Revenue, increased by USD 211,564 thousand, or 34.2 per cent., to USD 830,042 thousand for the year ended 31 December 2010 compared to USD 618,478 thousand for the year ended 31 December 2009, primarily as a result of an increase of 29.5 per cent. in Average Rolling Stock Operated to 36,793 units and an increase of 7.5 per cent. to USD 770.4 in the Average Price Per Trip, offset in part by a decrease of 3.6 per cent. to 29.3 trips in the Average Number of Loaded Trips per Railcar and a 2.2 per cent. decrease in the Average Distance of Loaded Trips.

Revenue from operating leasing of rolling stock increased by USD 5,156 thousand, or 7.9 per cent., primarily due to a moderate increase in lease rates for rolling stock leased to clients as well as an increase in the average number of rolling stock leased-out during 2010, compared to 2009.

Total cost of sales, selling and marketing costs and administrative expenses

The following table sets forth a breakdown of the total cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2010 and 2009.

	Years ended 31 December	
	2010	**2009**
	(USD in thousands)	
Depreciation of property, plant and equipment	63,017	53,193
Amortisation of intangible assets	173	14
Loss on sale of property, plant and equipment	2,041	1,679
Employee benefit expense	46,440	34,714
Impairment charge for receivables	1,474	1,438
(Reversal of)/ impairment charge for property, plant and equipment	(650)	1,291
Operating lease rentals—rolling stock	87,469	38,791
Operating lease rentals—office	4,362	4,682
Repairs and maintenance	63,673	62,223
Fuel and spare parts—locomotives	21,261	17,033
Engagement of locomotive crews	11,296	10,120
Infrastructure and locomotive tariffs:		
Loaded trips	479,671	478,152
Empty run trips, other tariffs and services provided by other transportation organisations	232,586	195,224
Including Empty Run Costs	*203,386*	*167,877*
Auditors' remuneration	1,262	1,449
Legal, consulting and other professional fees	3,298	6,637
Advertising and promotion	570	574
Communication costs	1,078	1,007
Information services	1,385	1,360
Taxes (other than income tax and value added taxes)	16,141	11,007
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	—	186
Other expenses	19,798	14,352
Total cost of sales, selling and marketing costs and administrative expenses	**1,056,345**	**935,126**

Total cost of sales, selling and marketing costs and administrative expenses increased by USD 121,219 thousand, or 13.0 per cent., from USD 935,126 thousand for the year ended 31 December 2009 to USD 1,056,345 thousand for the year ended 31 December 2010. This increase was primarily due to the factors described below.

Infrastructure and locomotive tariffs: loaded trips increased by USD 1,519 thousand, or 0.3 per cent., primarily due to the overall increase in business volumes as well as the annual increase in regulated tariff for services provided by Russian Railways.

Infrastructure and locomotive tariffs: empty run trips other tariffs and services provided by other transportation organisations increased by USD 37,362 thousand, or 19.1 per cent., primarily due to an increase in Empty Run Costs by USD 35,509 thousand, or 21.2 per cent., from USD 167,877 thousand for the year ended 31 December 2009 to USD 203,386 thousand for the year ended 31 December 2010, reflecting an increase in overall business volumes (the Group's Freight Rail Turnover increased by 20.4 per cent. year on year in 2010) and an increase in the regulated tariff for the traction of empty railcars of 9.4 per cent. from 1 January 2010, according to the FTS. These factors were partially offset by a decrease in the Empty Run Ratio to 62 per cent. for 2010 from 72 per cent. for 2009 and changes in the Group's cargo mix. In particular, the Empty Run Ratio for gondola (open top) cars decreased to 42 per cent. for 2010 from 46 per cent. for 2009 in part due to an improved return cargo carriage for metallurgical clients and construction materials. The Empty Run ratio for rail tank cars and hoppers decreased to 108 per cent. for 2010 from 114 per cent. for 2009 primarily due to changed logistics in the transportation of oil products and oil. Also contributing to the increase in infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations was an increase in tariffs incurred by the

Group when transporting railcars to/from clients when railcars are leased-out as well as repairs and maintenance arising from the increase in the size of the Group's Owned Fleet in 2010, and an increase in the use of Engaged Fleet to satisfy client demand in excess of the Group's own capacity.

Operating lease rentals—rolling stock which increased by USD 48,678 thousand, or 125.5 per cent., from USD 38,791 thousand for the year ended 31 December 2009 to USD 87,469 thousand for the year ended 31 December 2010 primarily due to an increase in the average number of railcars leased-in during 2010 compared to 2009 as well as a substantial increase in the leased-in rates.

Repair and maintenance increased by USD 1,450 thousand, or 2.3 per cent., from USD 62,223 thousand for the year ended 31 December 2009 thousand to USD 63,673 thousand for the year ended 31 December 2010 primarily due to the cost inflation of repair works and spare parts and the increase in the average Owned Fleet size, partially offset by cost reductions from the continued transfer of rolling stock to a mileage-based repairs system.

Employee benefits expense increased by USD 11,726 thousand, or 33.8 per cent., from USD 34,714 thousand for the year ended 31 December 2009 to USD 46,440 thousand for the year ended 31 December 2010 primarily due to an increase in results-linked bonuses, wages and salaries.

Fuel and spare parts—locomotives increased by USD 4,228 thousand, or 24.8 per cent, from USD 17,033 thousand for the year ended 31 December 2009 to USD 21,261 thousand for the year ended 31 December 2010 primarily due to increases in fuel prices.

Engagement of locomotive crews increased by USD 1,176 thousand, or 11.6 per cent., from USD 10,120 thousand for the year ended 31 December 2009 to USD 11,296 thousand for the year ended 31 December 2010 primarily due to an increase in the price for this service.

Legal, consulting and other professional fees decreased by USD 3,339 thousand, or 50.3 per cent., from USD 6,637 thousand for the year ended 31 December 2009 to USD 3,298 thousand for the year ended 31 December 2010 due to non-recurring costs in 2009 associated with the offering of GDRs completed in December 2009.

Taxes (other than income tax and VAT) increased by USD 5,134 thousand, or 46.6 per cent., from USD 11,007 thousand for the year ended 31 December 2009 to USD 16,141 thousand for the year ended 31 December 2010 due to an increase in the amount of property tax payable on the Group's Owned Fleet (other than leased-in under finance leases) reflecting the increase in its size.

Depreciation of property, plant and equipment increased by USD 9,824 thousand, or 18.5 per cent., from USD 53,193 thousand for the year ended 31 December 2009 to USD 63,017 thousand for the year ended 31 December 2010 primarily due to the increase in the size of the Group's Owned Fleet.

Other gains—net

Other gains—net increased by USD 2,263 thousand, from USD 785 thousand for the year ended 31 December 2009 to USD 3,048 thousand for the year ended 31 December 2010, primarily as a result of a decrease of USD 1,796 thousand, or 86.0 per cent., in other losses mainly due to several non-recurring items in 2009, and due to net foreign exchange loss of USD 722 thousand in 2009 mainly attributable to monetary assets and liabilities, other than those relating to financing activities, denominated in foreign currency (principally US Dollars) and exchange rate fluctuations between the relevant foreign currency and the relevant Group entity's functional currency.

Operating profit

The Group's operating profit amounted to USD 329,373 thousand for the year ended 31 December 2010, an increase of USD 100,307 thousand, or 43.8 per cent., compared to the year ended 31 December 2009 as a result of the factors discussed above.

Finance income

Finance income increased by USD 1,317 thousand, or 22.4 per cent. to USD 7,203 thousand for the year ended 31 December 2010 from USD 5,886 thousand for the year ended 31 December 2009, primarily as a result of an increase of total interest income by USD 2,154 thousand, or 52.7 per cent., mainly due to the full year effect in the year ended 31 December 2010 of income from the sale of wagons under finance leases entered mid-2009, partially offset by a decrease in amortisation of financial guarantees by USD 837 thousand, or 46.6 per cent., due to the termination in 2010 of a guarantee provided by a Group member in favour of a third party's indebtedness.

Finance costs

The following table sets forth a breakdown of finance costs for the years ended 31 December 2010 and 2009.

	Years ended 31 December	
	2010	2009
	(USD in thousands)	
Interest expense:		
Bank borrowings	(24,951)	(20,225)
Non-convertible bond	(3,906)	—
Finance leases	(13,524)	(21,536)
Loans from related parties	—	(638)
Loans from third parties	—	(273)
Other interest—related parties	(348)	(4,722)
Other finance costs	(927)	(112)
Total interest expense	**(43,656)**	**(47,506)**
Net foreign exchange transaction losses on financing activities	(7,450)	(21,104)
Finance cost on liability for minimum dividend distribution	(2,003)	—
Loss on exchange of financial liabilities	—	(8,498)
Distribution to non-controlling participants in redeemable shares	—	(7,451)
Finance costs	**(53,109)**	**(84,559)**

Finance costs decreased by USD 31,450 thousand, or 37.2 per cent., to USD 53,109 thousand for the year ended 31 December 2010 from USD 84,559 thousand for the year ended 31 December 2009, primarily due to decreases in interest expense, net foreign exchange transaction losses on financing activities, loss on exchange of financial liabilities and distribution to non-controlling participants in redeemable shares.

Total interest expense decreased by USD 3,850 thousand, or 8.1 per cent., to USD 43,656 thousand for the year ended 31 December 2010 from USD 47,506 thousand for the year ended 31 December 2009. This decrease was primarily due to a decrease of USD 8,012 thousand, or 37.2 per cent., in interest expense: finance leases due to a reduction in the Group's lease liabilities when finance leases were largely refinanced with the proceeds from non-convertible 5-year Rouble-denominated bonds issued in July 2010. The decrease was also due to a decrease of USD 4,374 thousand, or 92.6 per cent., in other interest—related parties, due to the settlement in early 2010 of the deferred consideration payable for the acquisition of the Estonian Subsidiaries from TIHL. These were partially offset by an increase of USD 3,906 thousand in interest expense: non-convertible bond, due to the interest arising on those Rouble-denominated bonds in 2010 after their issue, and an increase of USD 4,726 thousand, or 23.4 per cent., in interest expense: bank borrowings due to an increase in bank borrowings.

Net foreign exchange transaction losses on financing activities decreased by USD 13,654 thousand, or 64.7 per cent., to USD 7,450 thousand for the year ended 31 December 2010 from USD 21,104 thousand for the year ended 31 December 2009, mainly due to a decrease in the Group's total US dollar-denominated financial liabilities.

Loss on exchange of financial liabilities of USD 8,498 thousand arose in the year ended 31 December 2009, which related to the financial effect of the restructuring of the BTS holding structure in December 2009, whereby the Group exchanged a financial liability to the non-controlling participants in BTS related to their redemption right, for an obligation to pay a minimum dividend distribution to non-controlling equity participants. See Note 33 of the Consolidated Financial Statements for the year ended 31 December 2010.

Distribution to non-controlling participants in redeemable shares of USD 7,451 thousand in the year ended 31 December 2009 related to the dividend paid to the non-controlling participant of BTS prior to the acquisition of BTS by the Group.

Share of profit of associates

The share of profit of associates decreased by USD 255 thousand, or 55.3 per cent., to USD 206 thousand for the year ended 31 December 2010 from USD 461 thousand for the year ended 31 December 2009 reflecting the Group's share of the profit of Daugavpils Lokomtivju Remonta Rupnica, an associate of AS Spacecom.

Profit before income tax

Profit before income tax increased by USD 132,819 thousand, or 88.0 per cent., to USD 283,673 thousand for the year ended 31 December 2010 from USD 150,854 thousand for the year ended 31 December 2009 due to the factors discussed above.

Income tax expense

Income tax expense increased by USD 28,052 thousand, or 94.5 per cent., to USD 57,733 thousand for the year ended 31 December 2010 from USD 29,681 thousand for the year ended 31 December 2009. This relates to an increase in profit before income tax and in the weighted average applicable tax rate to 17.8 per cent. for the year ended 31 December 2010 from 17.0 per cent. for the year ended 31 December 2009. The change in the weighted average tax rate was primarily due to an increase in the profitability of the Group's Russian subsidiaries (which are taxed at a corporate tax rate of 20 per cent.) compared to the Estonian subsidiaries (which have a zero applicable tax rate).

LIQUIDITY AND CAPITAL RESOURCES

General

The business of freight rail transportation is capital intensive. In the periods under review, the Group's liquidity needs arose primarily from the need to incur substantial expenditures for, among other things, expansion and maintenance of its Owned Fleet, non-organic growth through acquisitions and general working capital requirements. In the period under review, the Group has been able to meet its liquidity and capital expenditure needs from operating cash flow, supplemented by funds provided by shareholders, borrowed from financial institutions and funds raised from public debt instruments.

Management controls current liquidity based on expected cash flows. From a long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements or the decision to issue public debt instruments, and by budgeting procedures. As at 31 March 2012, the Group had positive Net Working Capital of USD 148,264 thousand. Net Working Capital is calculated as the sum of the current portions of trade receivables—net, inventories, current income tax assets, prepayments—third parties, prepayments—related parties, other receivables net, and VAT recoverable, less the sum of the current portions of trade payables—third parties, trade payables—related parties, advances from third parties for transportation services, advances from related parties for transportation services, accrued expenses, other payables—related parties, and other payables—third parties.

Utilising its anticipated operating cash flow and its borrowings, the Group believes that it has sufficient working capital to enable it to meet its liabilities as they fall due and to continue to operate for the forseeable future.

Capital expenditures

In the period under review, the Group's capital expenditures have principally been made to fund the acquisition of rolling stock. The Group's capital expenditure for the acquisition of rolling stock, including rolling stock leased under finance leases, for the three months ended 31 March 2012 was USD 213,314 thousand and for the years ended 31 December 2011, 2010 and 2009 were USD 131,598 thousand, USD 286,199 thousand and USD 103,904 thousand, respectively. As at 31 March

2012, the Group had capital commitments of USD 426,951 thousand relating to the acquisition of railcars in 2012.

Cash flows

The following table sets forth the principal components of the Group's consolidated cash flow statement for the three months ended 31 March 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009.

	Three months ended 31 March				
	2012	**2011**	**2011**	**2010**	**2009**
	(unaudited)				
			(USD in thousands)		
Net cash from operating activities	101,526	106,303	441,758	288,949	272,198
Net cash used in investing activities	(219,258)	(22,425)	(126,173)	(292,967)	(167,459)
Net cash from/(used in) financing activities	331,358	(51,995)	(328,682)	(17,625)	(80,745)
Net (decrease)/increase in cash and cash equivalents	213,626	31,883	(13,097)	(21,643)	23,994
Exchange losses on cash and cash equivalents	11,827	6,653	(4,141)	(492)	(1,815)
Cash and cash equivalents and bank overdrafts at end of period	**345,173**	**175,494**	**119,720**	**136,958**	**159,093**

Net cash from operating activities

Net cash generated from operating activities decreased by USD 4,777 thousand, or 4.5 per cent., from USD 106,303 thousand for the three months ended 31 March 2011 to USD 101,526 thousand for the three months ended 31 March 2012. This decrease was primarily due to changes in working capital, which increased by USD 25,177 thousand and an increase in tax paid of USD 9,607 thousand primarily due to the higher income tax charge arising from higher taxable profits, in each case in three months ended 31 March 2012 compared to the same period in the previous year. This was partially offset by an increase in profit for the period in the three months ended 31 March 2012.

Net cash generated from operating activities increased by USD 152,809 thousand, or 52.9 per cent., from USD 288,949 thousand for the year ended 31 December 2010 to USD 441,758 thousand for the year ended 31 December 2011. This increase was primarily due to an increase in cash flows from operating activities excluding changes in working capital of USD 114,490 thousand, or 29.1 per cent., from growth in the size of the Group's business, as well as a decrease in cash outflow from changes in working capital of USD 67,454 thousand, or 95.9 per cent. due in part to a decrease in trade and other receivables for VAT recoverable. This was offset in part by an increase in tax paid of USD 29,135 thousand, or 84.9 per cent., primarily due to the higher income tax charge arising from higher taxable profits.

Net cash generated from operating activities increased by USD 16,751 thousand, or 6.2 per cent., from USD 272,198 thousand for the year ended 31 December 2009 to USD 288,949 thousand for the year ended 31 December 2010. This increase was primarily due to an increase in cash flows from operating activities excluding changes in working capital of USD 109,513 thousand, or 38.5 per cent., which was offset by an increase in trade and other receivables driven by increased revenues and prepayments as well as a change of payment terms of some transportation agreements, and an increase in VAT recoverable related to VAT reimbursable on the acquisition of new rolling stock. In addition, tax paid increased by USD 16,303 thousand, or 90.6 per cent., primarily due to the higher income tax charge arising from higher taxable profits.

Net cash used in investing activities

Net cash used in investing activities increased by USD 196,833 thousand, or 877.7 per cent., from USD 22,425 thousand for the three months ended 31 March 2011 to USD 219,258 thousand for the three months ended 31 March 2012, primarily as a result of a significant increase in the purchase of property, plant and equipment, which increased by USD 197,655 thousand, reflecting the Group's decision to scale-up its railcar investment programme. See also *"—Key Factors Affecting the Group's Financial Condition and Results of Operations—Expansion and composition of fleet"*.

Net cash used in investing activities decreased by USD 166,794 thousand, or 56.9 per cent., from USD 292,967 thousand for the year ended 31 December 2010 to USD 126,173 thousand for the year ended 31 December 2011. This decrease was primarily due to a significant reduction in the purchase of property, plant and equipment, which decreased by USD 125,881 thousand, or 42.0 per cent., as the Group decided to temporarily scale-back its investment programme because of inflated market prices for new railcars. The decrease was also due to a significant increase in receipts from finance lease receivable, which increased by USD 31,453 thousand, or 703.3 per cent., due to the early termination of a finance lease where the Group was a lessor and for which it received a lump sum payment.

Net cash used in investing activities increased by USD 125,508 thousand, or 74.9 per cent., from USD 167,459 thousand for the year ended 31 December 2009 to USD 292,967 thousand for the year ended 31 December 2010. This increase was primarily due to an increase of USD 193,167 thousand, or 181.1 per cent. in purchases of property, plant and equipment, arising from the Group's acquisition of rolling stock under its railcar investment programme. This was partially offset by a decrease of USD 64,654 thousand, or 90.2 per cent., in cash outflows from acquisition of subsidiaries-net of cash acquired, arising from deferred payments for the acquisition of AS Spacecom (***Spacecom***) and AS Spacecom Trans (***Spacecom Trans***), which was acquired in December 2008 and settled in full in April 2010.

Net cash from/(used in) financing activities

Net cash from financing activities for the three months ended 31 March 2012 amounted to USD 331,358 thousand compared to net cash used in financing activities of USD 51,995 thousand in the three months ended 31 March 2011. This change was primarily due to an increase in proceeds from borrowings of USD 397,797 thousand mainly due to the issue of RUB 10 billion 3-year Rouble-denominated bonds in the three months ended 31 March 2012, a decrease in repayments of borrowings of USD 14,196 thousand, a decrease in finance lease principal payments of USD 9,918 thousand, a decrease in dividends paid to non-controlling interests of USD 7,529 thousand, in part offset by the purchase of treasury shares in amount of USD 43,173 thousand.

Net cash used in financing activities for the year ended 31 December 2011 increased by USD 311,057 thousand, from USD 17,625 thousand for the year ended 31 December 2010 to USD 328,682 thousand for the year ended 31 December 2011. This increase was primarily due to a decrease in proceeds from borrowings of USD 325,123 thousand, or 74.4 per cent., a decrease in repayments of borrowings of USD 67,580 thousand, or 27.4 per cent., and a decrease in finance lease principal payments of USD 60,588 thousand, or 50.8 per cent., as the Group deleveraged its business and an increase in dividends paid to Company's shareholders of USD 34,510 thousand, or 143.8 per cent., and an increase in dividends paid to non-controlling interests of USD 4,921 thousand, or 23.3 per cent. as well as by the non-recurring amount of USD 81,700 thousand in year ended 31 December 2011 for the acquisition of additional interests in BTS and Spacecom. The increase was partially offset by a decrease in interest paid of USD 7,057 thousand, or 16.2 per cent., as a result of the lower level of Group debt.

Net cash used in financing activities for the year ended 31 December 2010 decreased by USD 63,120 thousand, from USD 80,745 thousand for the year ended 31 December 2009 to USD 17,625 thousand for the year ended 31 December 2010. This decrease was primarily due to a net cash inflow from borrowings and finance lease principal repayments of USD 71,080 thousand in the year ended 31 December 2010 compared to a net cash outflow of USD 73,540 thousand in the year ended 31 December 2009, a decrease in interest paid of USD 6,106 thousand, or 12.3 per cent., as a result of the lower level of Group debt, and the non-recurrence in 2010 of cash outflows USD 67,069 thousand for dividends paid to shareholders of BTS in 2009 prior to common control transaction and USD 7,451 thousand for distribution to non-controlling participants in redeemable shares. This was partially offset by payments in the year ended 31 December 2010 of dividends to shareholders and non-controlling shareholders of USD 24,000 thousand and USD 21,157 thousand, respectively, and the non-recurrence in 2010 of cash inflows of USD 20,788 thousand from proceeds from sale and finance leaseback transactions and USD 96,209 thousand from proceeds from issue of shares—net.

Capital resources

The Group's financial indebtedness consists of bank overdrafts, bank borrowings, non-convertible unsecured bond issues and finance lease liabilities in an aggregate principal amount of USD 809,231 thousand (including accrued interest of USD 5,051 thousand) as at 31 March 2012, representing an increase of USD 430,119 thousand or 113.5 per cent., compared to 31 December 2011. This increase was primarily due to new borrowings to finance, in part, the acquisition of new rolling stock. The Group had financial indebtedness in an aggregate principal amount of USD 379,112 thousand as at 31 December 2011, USD 519,039 thousand as at 31 December 2010 and USD 449,131 thousand as at 31 December 2009.

Currently, the majority of the Group's bank borrowings have been secured by pledges of rolling stock and assignments of certain contractual rights to transportation services. In addition, New Forwarding Company is required to pledge its interests in MIT to Sberbank within 60 days of the MIT Acquisition under the terms of the related secured credit facility referred to below. The Group's indebtedness also includes unsecured borrowings from banks, non-convertible unsecured bond issues and unsecured commitments from banks.

In connection with the MIT Acquisition, in April 2012, the Group entered into and drew down in full a three-year floating rate USD 400 million secured credit facility with Sberbank. See also *"Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility"*. In addition, in the period between 1 April 2012 and 5 July 2012, in connection with the acquisition of new railcars the Group has borrowed a total of USD 502,557 thousand from financial institutions under existing and new facilities.

The Group's bank borrowings include a loan from International Finance Corporation (***IFC***), a subsidiary of the World Bank, amounting to USD 25,949 thousand as at 31 March 2012 (excluding accrued interest). In connection with the IFC loan, there is a share retention agreement in place whereby TIHL is obliged to retain at least 26 per cent. of the share capital of the Company free and clear of any lien, and the Company is obliged to maintain 100 per cent. of the share capital of Sevtekhnotrans free and clear of any lien.

The Group's ratio of net debt to Adjusted EBITDA for the last twelve months amounted to 0.9x at 31 March 2012. The Group's ratio of net debt to Adjusted EBITDA amounted to 0.5x, 1.0x and 1.0x at 31 December 2011, 2010 and 2009, respectively. Net debt is defined as the sum of current and non-current borrowings less cash and cash equivalents. As at 31 March 2012, 77 per cent. of the Group's borrowings were fixed rate, and the remaining 23 per cent. were floating rate.

The Group's borrowings consist of bank overdrafts, bank borrowings, loans from third parties and finance lease liabilities in an aggregate amount of USD 809,231 thousand (including accrued interest of USD 5,051 thousand) as at 31 March 2012.

The following table sets forth the maturity profile and other characteristics of the Group's borrowings (including accrued interest of USD 5,051 thousand) as at 31 March 2012.

	As at 31 March 2012
	(USD in thousands)
2nd quarter 2012	87,815
3rd quarter 2012	45,893
4th quarter 2012	56,882
2013	103,923
2014	106,669
2015 to 2017	408,048
Total	**809,231**

Note: This table does not include the indebtedness incurred since 31 March 2012 in connection with the MIT Acquisition and the acquisition of additional rolling stock. See *"—Recent Developments"* and *"Unaudited Pro Forma Financial Information"*.

As at 31 March 2012, the weighted average interest rate for bank overdrafts was 2.2 per cent., bank borrowings was 8.3 per cent., non-convertible bonds was 9.9 per cent. and finance lease liabilities was 3.8 per cent.

As at 31 March 2012 the carrying amounts (including accrued interest of USD 5,051 thousand) of the Group's borrowings were denominated in the following currencies:

	As at 31 March 2012
	(USD in thousands)
US Dollar	148,415
Rouble	658,437
Euro	2,379
Total	**809,231**

Note: This table does not include the indebtedness incurred since 31 March 2012 in connection with the MIT Acquisition and the acquisition of additional rolling stock. See *"—Recent Developments"* and *"Unaudited Pro Forma Financial Information"*.

As at 31 March 2012, the Group had the following undrawn borrowing facilities:

	As at 31 March 2012
	(USD in thousands)
Floating rate:	
Expiring within 1 year	6,241
Expiring beyond 1 year	—
Fixed rate:	
Expiring within 1 year	345,403
Total	**351,644**

Contractual commitments and contingent liabilities

Contractual commitments

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

Future aggregate minimum operating lease payments	**As at 31 December 2011**
	(USD in thousands)
Not later than 1 year	49,523
Later than 1 year and not later than 5 years	12,062
Total	**61,585**

As at 31 March 2012, the Group had capital expenditure contracted for but not yet incurred in the amount of USD 426,951 thousand, representing the acquisition of railcars as part of property plant and equipment.

As at 31 March 2012, no member of the Group had any material obligation as a guarantor or surety of the obligation of any person, not being a member of the Group, which are not reflected on the balance sheet.

As at 31 March 2012, the Group was not aware of any contingent tax, litigation or other liabilities, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the Interim Condensed Consolidated Financial Information.

Quantitative and Qualitative Disclosure on Market and Other Risks

The Group's activities expose it to credit risks and market risks, including foreign exchange risk and cash flow and fair value interest rate risk, detailed descriptions of which are set out in Note 3 to the Consolidated Financial Statements for the year ended 31 December 2011.

Significant Accounting Policies, Critical Accounting Estimates and Judgements

The Group's management believes its significant and critical accounting estimates and judgements are those described below.

Significant accounting policies

A detailed description of certain of the main accounting policies used in preparing the Consolidated Financial Statements is set out in Note 2 of the Consolidated Financial Statements for the year ended 31 December 2011.

Critical accounting estimates and judgements

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

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

Revenue recognition

Operator's services are rendered using owned or leased-in rolling stock. The Group's customers do not interact with Russian Railways. A full service is charged by the Group to its customers and the 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 Russian Railways tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by Russian Railways. However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the Russian Railways tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for any Empty Run tariff. The Group believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the Russian Railways tariff is included in cost of sales. Had the Russian Railways tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by USD 556,030 thousand for the year ended 31 December 2011 (USD 479,671 thousand for the year ended 31 December 2010).

The above include contracts with several customers where the Group amended the terms in 2011. Under the legal form of these contracts the Group now acts as an agent in respect of Russian Railway tariff and recharges it to its customers. Management believes that despite the change of legal form of the contracts the substance of the relationship with the customers remained unchanged and the Group continues to act as a principal, because the Group's customers do not interact with Russian Railways, the Group bears the credit risk and controls the flow of receipts and payments, the services are rendered with the use of own or leased rolling stock and the Group bears the Russian Railways tariff to bring the rolling stock back or to the next destination. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff is included in cost of sales. Had the Russian Railways loaded trip tariff directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by USD 523,442 thousand for the year ended 31 December 2011.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28 of the Consolidated Financial Statements for the year ended 31 December 2011.

RUSSIAN RAIL TRANSPORTATION MARKET

OVERVIEW

The Russian Federation is the largest country in the world by territory and is characterised by significant distances both between population centres and between suppliers of raw materials and their intermediate or end customers. The railway system is the key mode of transportation in Russia with an operational length of over 85 thousand kilometres as at 31 December 2011, making it the third largest rail network in the world in terms of track length, according to Russian Railways. In addition, Russia's Freight Rail Turnover is the third largest, after China and the United States, according to Russian Railways. Due to strong industrial production underpinned by continued economic growth, in 2011, the Russian Transportation Volume was more than 1,241 million tonnes, and Freight Rail Turnover reached 2,127 billion tonnes-km, according to Rosstat. The overall increase in these measures in 2011 compared with 2010 is indicative of improved economic conditions in Russia as the recovery from the recent global economic downturn continued. This surpassed the results of the past few years, outperforming the relatively strong years of 2007 and 2008. Nevertheless, in absolute figures, Russian Freight Rail Turnover is still below the peak of 2,523 billion tonnes-km recorded in the Soviet era (1990).

Rail plays an integral part in the freight transportation market in Russia, comprising approximately 43.3 per cent. of the country's overall freight turnover in 2011, and 85.3 per cent. if pipeline traffic is excluded, according to Rosstat. The high share of rail in the Russian freight transportation market is driven by the country's geography, the economic importance of commodity production and heavy industry in Russia as well as by the limitations of other transportation networks. The Russian road systems are insufficient in terms of coverage and capacity, and waterways freeze in winter and only connect a limited number of demand centres. The use of road transportation and air transport are not economically efficient for long-distance transportation of heavy and bulky cargoes like coal, metals, ores and oil products, which account for a large proportion of Russian freight turnover, and although the majority of crude oil is transported by pipeline, the majority of oil products are transported by rail.

The table below sets forth a breakdown of freight turnover in Russia by the different means of transport in 2011.

	Freight turnover (2011)	
	(tonnes-km in billions)	(per cent.)
Railway	2,126.6	43.3%
Road	222.8	4.5%
Marine	77.5	1.6%
Inland Waterway	61.0	1.2%
Air	4.9	0.1%
Pipeline	2,421.9	49.3%
Total	**4,914.7**	**100%**

Source: Rosstat

KEY DEMAND FACTORS

Macroeconomic overview

The Russian economy is largely commodity driven. Payments from fuel and the energy sector in the form of customs duties and taxes accounted for nearly half of the federal budget's revenues. The rebound of Russia's economy since the economic downturn in 2008-2009 has been primarily driven by a recovery in its key commodities industries but was also supported by a recovery in domestic demand and manufacturing production. Demand trends for major cargoes have all improved on a yearly basis since 2009, which in turn, has contributed to strong growth in GDP of 4.3 per cent. in 2010 and 4.3 per cent. in 2011, reaching USD 1,857 billion and exceeding the pre-crisis levels, according to Rosstat.

Russia has historically witnessed high levels of correlation between growth in GDP, industrial production and in Freight Rail Turnover. According to the EIU, there is likely to be continued economic growth in Russia in the medium-term with 3.7 per cent. growth in 2012. The growth in the economy has provided the Russian government with budget surpluses, which have enabled increased public investment in infrastructure and accumulation of foreign exchange reserves. Improvement in industrial production growth in the period since the economic downturn in 2008-2009 has driven increases in GDP as the macroeconomic conditions have improved.

Russian macroeconomic indicators evolution

	Years ended 31 December				
	2007	2008	2009	2010	2011
GDP, USD billion at current prices	1,301	1,659	1,222	1,487	1,857
Real GDP growth, %	8.5%	5.2%	(7.8%)	4.3%	4.3%
Industrial production growth, %	6.8%	0.6%	(9.3%)	8.2%	4.7%

Source: Rosstat, GDP figures converted to USD at yearly average foreign exchange rates. See *"Exchange Rate Information"*.

Freight rail transportation market

Growth in demand for freight rail services in the Russian Federation in recent years has been driven, in particular, by strong demand for commodities which are major cargoes for Russian freight rail operators. Russian Freight Rail Turnover has increased steadily from 2000 to 2011 with a CAGR of 4.1 per cent. Following the economic downturn in 2008-2009, there was a fall in Russian Freight Rail Turnover, but the Russian economy has now recovered and has returned to levels before the crisis. In 2012, the demand for freight rail transportation continued to increase, with Russian Freight Rail Turnover increasing by 5.4 per cent. in the first six months of 2012 compared to the same period in the previous year.

Overall Russian freight rail turnover

	Years ended 31 December						Six months ended 30 June	
	2000	2007	2008	2009	2010	2011	2011	2012
	(tonnes-kilometres in billions)							
Russian Freight Rail Turnover	1,373	2,090	2,116	1,865	2,011	2,127	1,047	1,103

Source: Rosstat and Russian Railways

Freight rail volumes in Russia have historically been, and continue to be, largely comprised of commodities such as coal, oil products and oil, metals and ores, and construction materials. In the future, levels of demand for such commodities are expected to continue to play a critical role in determining overall demand for freight rail.

Breakdown of Russian Transportation Volume, by cargo

	Year ended 31 December 2011
Coal (thermal and coking)	25%
Oil products and oil	20%
Metallurgical cargoes (ferrous metals, scrap metals and ores)	18%
Construction materials (including cement)	16%
Other	21%

Source: Rosstat and Russian Railways

Metallurgical cargoes (ferrous metals, scrap metal and ores)

In 2011, according to Rosstat and Russian Railways, metallurgical cargoes (ferrous metals, scrap metals and ores) accounted for 18 per cent. of the overall Russian Transportation Volumes and accounted for 49.0 per cent. of Pro Forma Freight Rail Turnover and 40.3 per cent. of Pro Forma Transportation Volume in 2011, making it the Group's largest cargo segment.

The table below sets out the Russian Transportation Volumes by rail for ferrous metals, scrap metal and ores for selected periods from 2000 through to June 2012.

	Years ended 31 December						Six months ended 30 June	
	2000	2007	2008	2009	2010	2011	2011	2012
	(tonnes in millions)							
Ferrous metals, scrap metals, ores	194.7	246.1	230.6	200.1	221.0	228.4	113.5	111.3

Source: Rosstat and Russian Railways

Overall, Russian Transportation Volumes of metallurgical cargoes increased by 3.4 per cent. in 2011 compared to the previous year, supported by a robust domestic demand, primarily from the construction, engineering and energy sectors, and slightly declined by nearly 2 per cent. in the first half of 2012, compared with the same period in the previous year.

Oil products and oil

Oil products and oil accounted for 20 per cent. of the Russian Transportation Volumes in 2011. This is the second largest cargo segment for the Group, accounting for 21.3 per cent. of Pro Forma Freight Rail Turnover in 2011 and 28.6 per cent. of Pro Forma Transportation Volume in 2011.

Russian crude oil production has been moderately increasing in recent years. Refining at Russian refineries has increased in recent years, from 237 million tonnes in 2008 to 258 million tonnes in 2011 (a CAGR of 2.9 per cent.), according to Rosstat and Russian Railways, supported by increases in domestic demand for light products.

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

The table below sets out the rail Transportation Volumes for oil products and oil in Russia for selected periods from 2000 through to June 2012.

	Years ended 31 December						Six months ended 30 June	
	2000	2007	2008	2009	2010	2011	2011	2012
	(tonnes in millions)							
Oil products and oil	150.0	232.7	232.1	228.0	252.7	250.0	125.7	128.7

Source: Rosstat and Russian Railways

The market for rail transportation of oil products and oil is the most stable within the rail cargo segments, as shown by the segment's resilient performance during the economic downturn in 2008-2009 when rail transportation volumes of oil products and oil in 2009 declined by only 1.8 per cent. compared to the levels of 2008. In 2011, the Russian Transportation Volumes of oil products and oil remained relatively flat year on year, declining by 1.1 per cent. compared to the previous year. In the first half of 2012, Russian oil products and oil rail Transportation Volumes grew by 2.4 per cent. compared to the same period in the previous year, driven by increases in crude and oil products output in Russia.

Coal (thermal and coking)

Coal (thermal and coking) is the largest segment of Russia's freight rail transportation industry, amounting to 25 per cent. of overall Russian Transportation Volumes in 2011. Coal is the third largest cargo segment for the Group, accounting for 20.6 per cent. of Pro Forma Freight Rail Turnover in 2011 and 17.1 per cent. of Pro Forma Transportation Volume in 2011.

The factors driving coal production volumes in Russia vary considerably between coking coal and thermal coal. Production of coking coal, used in metallurgical production, is largely driven by the same key factors as the metallurgical industry. Thermal coal production in Russia has been driven by the growing demand for electricity from industrial consumers as well as by growing prices and demand for thermal coal in the international markets.

The table below sets out the Russian Transportation Volumes for coal for selected years from 2000 through to June 2012.

	Years ended 31 December						Six months ended 30 June	
	2000	2007	2008	2009	2010	2011	2011	2012
	(tonnes in millions)							
Coal (thermal and coking)	253.4	298.6	308.8	285.9	298.9	309.1	152.4	157.4

Source: Rosstat and Russian Railways

The trend in Russian Transportation Volumes of coal has improved since May of 2009, driven by increased demand for thermal coal as electricity demand has recovered. Overall, Russian Transportation Volumes of coal increased by 3.4 per cent. in 2011 compared to the previous year, and 3.3 per cent. in the first half of 2012, compared to the same period in the previous year, which in each case, was driven by a robust demand from both domestic and international markets.

Construction materials (including cement)

Construction materials (including cement) accounted for 16 per cent. of the overall Russian Transportation Volumes in 2011. This is the fourth largest cargo segment for the Group, accounting for 4.6 per cent. of Pro Forma Freight Rail Turnover in 2011 and 7.4 per cent. of Pro Forma Transportation Volume in 2011.

Production of construction materials (including cement) in Russia has historically been driven principally by demand in the domestic construction and infrastructure sectors.

The table below sets out the Russian Transportation Volumes for construction materials (including cement) for selected years from 2000 through to June 2012.

	Years ended 31 December						Six months ended 30 June	
	2000	2007	2008	2009	2010	2011	2011	2012
	(tonnes in millions)							
Construction materials (including cement)	230.3	299.9	233.1	157.4	175.9	192.2	88.8	103.6

Source: Rosstat and Russian Railways

Construction materials was the last sector to recover from the decline caused by the economic downturn in 2008-2009. In 2011, Russian Transportation Volumes of construction materials increased 9.3 per cent. compared to the previous year, and in the first half of 2012, increased by 16.7 per cent. compared to the same period in the previous year. The recovery in rail transportation of construction materials reflected an increase in construction activity, which rose in 2011 by 5.1 per cent. year on year, according to Rosstat.

KEY SUPPLY FACTORS

Reform of Russian rail transportation market

A significant factor in both the recent growth and the future prospects of the Russian freight rail industry is the ongoing programme of structural reform of rail transportation in Russia (the ***Reform***). The Reform was initiated by the Russian government in 2001 with the goal, among others, of satisfying the growing demand of the Russian economy for transportation services by increasing the efficiency and stability of the existing rail infrastructure. In particular, the Reform was designed to attract investment, including private investment, to the sector, which is burdened with an ageing fleet of railcars and locomotives and an infrastructure that requires substantial investment.

In recent years, Russian Railways has taken significant steps to first separate its business activities into subsidiaries and then divest significant (and in some cases controlling) stakes in a range of its operations, including its freight transportation operations, in an effort to liberalise the market and promote competition. In particular, in 2007, Russian Railways established Freight One, a wholly-owned operating subsidiary, to operate a part of its railcar fleet on a competitive basis. In 2010, Russian Railways also created another freight rail transportation subsidiary, Freight Two, to hold its remaining commercial railcar fleet. In December 2011, Russian Railways disposed of a 75 per cent. minus two shares stake in Freight One to UCL Rail, which represented a significant step towards the development of a competitive freight rail transportation market in Russia. As a result, approximately 75 per cent. of the Russian railcar fleet is now estimated to be held by private companies and operates on the basis of market pricing. In addition, tariffs of railcars operated by Freight Two are also not regulated. According to press reports, Russian Railways may also sell its remaining stake in Freight One. Russian Railways has also sold minority interests in its container freight operator, TransContainer, and some other subsidiaries.

While Russian Railways retains a monopoly in the provision of rail infrastructure and is by far the major player in the provision of locomotive traction services, the regulatory framework provides third-party operators with a legal right to access such infrastructure on a non-discriminatory basis alongside Russian Railways and its subsidiaries. The private freight rail sector in Russia has benefited from the Reform and has experienced rapid growth in the number of private operators and in their fleets of railcars. Private operators are able to set their own prices for railcar services while paying Russian Railways regulated tariffs for infrastructure and locomotive traction services to forward loaded and empty railcars (in cases of loaded trips such tariffs are in principle a "pass-through" for an operator as they are either paid by an operator on behalf of the customer or paid by the customer directly to Russian Railways).

Russian Railways' locomotive fleet is ageing and will require significant replacement investment in coming years. The Russian government and Russian Railways will likely need private capital to fund a portion of such investments similar to the significant private investments in railcars made over the course of the Reform. Some private freight rail operators (including the Group) already use some owned locomotives for freight rail transportation. As at 31 March 2012, the Group's Total Fleet included 56 locomotives.

In 2011, the Russian government took an important step towards introducing competition to the locomotive traction segment by establishing an infrastructure tariff for private carriers operating their own locomotives. The next steps to be taken include the development of access regulations, as well as the development of a technical and operational framework. Full liberalisation of locomotive traction, as envisioned by the Reform, remains to be implemented, and the timing of such liberalisation is being discussed within Russian Railways and the Russian government.

In recent years, as a part of the ongoing Reform and industry liberalisation, Russian Railways divested a sizeable number of railcar repair depots to private investors. This has led to increased competition between private companies and Russian Railways in certain segments of railcar repair services. The Group currently operates one railcar depot and one locomotive depot.

For further information on the regulatory environment, see "*Regulation of Railway Transportation in Russia*".

Key market players

While a significant number of railcars in Russia are owned by private companies, the industry remains relatively fragmented, with the largest 10 Russian private freight rail operators accounting for approximately 48 per cent. of the whole private fleet by the end of 2010, according to Russian Railways. Further strengthening of competition is expected to lead to further consolidation.

Large operators of railcars have competitive advantages that allow them to attract some of the largest Russian rail transportation customers. In 2002-2005, these dominant rail customers relied on Russian Railways as a main fleet provider while opting for investment in their own "captive" fleet to ensure sufficient rail transportation capacity. This preference is gradually shifting from Russian Railways to large operators providing core fleet and logistics services. A larger fleet provides the flexibility to supply rolling stock on short notice and allows the operator to provide a "one-stop-shop" service to key customers, particularly where they have production facilities, suppliers and cargo destinations in multiple locations. Large operators can also achieve efficiency gains through optimising their logistics (for example, by reducing Empty Run Costs), thus increasing profitability.

While Russian Railways together with its subsidiaries remains an important player with the country's second largest fleet of rolling stock and a monopolistic role as the sole railway infrastructure operator, the market share of privately owned operators competing with Russian Railways on service and pricing has grown considerably since the commencement of the Reform. According to Russian Railways, the share of privately owned rolling stock in the Russian freight rail market increased from 31 per cent. as at the end of 2005 to 75 per cent. as at the end of 2011, including Freight One, which ceased to be controlled by Russian Railways and was acquired by UCL Rail in December 2011. Further growth of the largest market participants, along with increased competition, is expected to lead to further consolidation, and more of the smaller players are likely to leave the market as larger operators continue to expand.

In addition to the Group, key market participants include UCL Rail (which includes Freight One), Freight Two and other operators, including a number of "captive" freight rail operations related to large Russian industrial groups, as described further below.

As described above, UCL Rail acquired a controlling stake in Freight One in December 2011, and as at 31 December 2011, had a combined fleet of over 218 thousand of freight railcars, according to UCL Rail. At the time of its acquisition, Freight One was the largest freight rail operator in Russia with around 190 thousand units of owned rolling stock as at 31 December 2011. Its fleet is diversified with a primary focus on gondola (open top) cars and rail tank cars. In 2011, Freight One transported 284 million tonnes of various cargos (coal, oil products and oil, metallurgical and other cargos), which constituted a 22.9 per cent. share of the Russian Transportation Volume. According to Freight One's annual report, the average age of its fleet was 19.2 years as at 31 December 2010. Prior to the Freight One acquisition, UCL Rail owned over 28 thousand railcars, mostly gondola (open top) cars, of which approximately 20 thousand were purchased from Russian Railways in the second half of 2010. These railcars were sold by Russian Railways with expired useful lives but most were subsequently overhauled.

Freight Two was established in 2010 to hold the remainder of the Russian Railways commercial freight railcar fleet. Freight Two is the second largest holder of rolling stock in Russia with over 175,000 freight railcars in ownership as at 31 December 2011. Gondola (open top) cars account for over 75 per cent. of the fleet. Although Freight Two is the second largest owner of rolling stock, its fleet under management is significantly lower as Freight Two leases a substantial portion of its gondola (open top) cars to Russian Railways. According to Freight Two, as at 31 December 2011, its fleet under management was approximately 41 thousand railcars.

Other large independent operators of gondola (open top) cars and rail tank cars include the Group, Neftetransservice and Transoil.

Captives serve the transportation needs of large industrial producers by securing part of their rail transportation demand for gondola (open top) cars and rail tank cars, or by providing specialised rolling stock. Metals and mining companies, such as SDS-Ugol, Evraz, Sibuglemet and SUEK, MMK, Mechel and others own sizeable captives in terms of their gondola (open top) car fleet. Major oil companies, such as GazpromNeft, Lukoil, Rosneft and others, also have subsidiaries focused on rail transportation. Some captives have significant railcar fleets which they manage themselves, while others outsource the management of the fleet or operate primarily as a logistics service provider, using Engaged Fleet.

Fleet overview

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

Overall Russian railcar fleet by type of railcars

	As at 31 December 2011	
	(thousands)	(per cent. of total)
Gondola (open top) cars	473.6	43.3%
Rail tank cars	266.2	24.4%
Box cars	71.5	6.6%
Flat cars	56.4	5.2%
Other	224.1	20.5%
Total	**1,091.8**	**100.0%**

Source: Russian Railways

The most common type of railcar in Russia is the gondola (open top) car. Gondola (open top) cars can be used to carry a wide variety of cargoes, including ferrous metals, scrap metals, ores, crushed stone, coal, timber and even containers. Rail tank cars, the second most common type of railcar in Russia, are designed to transport liquid and gaseous commodities and are used mostly for the transportation of oil products and oil. Box cars are enclosed, generally have side doors and used to carry general freight. Flat cars have an open flat deck and may carry machinery, containers, timber or other loads which would not fit in other types of cars. Hopper cars are designed to carry various dry cargoes, including grain, cement and fertilisers.

The competitive landscape in the Russian freight rail transportation market has changed significantly since commencement of the Reform in 2001. Private operators have been expanding their fleets through the acquisition of new railcars, increasing their share of all Russian railcars from 31 per cent. as at the end of 2005, to approximately 75 per cent. as at the end of 2011, according to Russian Railways. The share of private operators in 2011 includes Freight One, which ceased to be controlled by Russian Railways in December 2011, as described above.

Overall Russian railcar fleet by type of ownership

	Years ended 31 December						
	2005	2006	2007	2008	2009	2010	2011
Russian Railways and its subsidiaries	69%	68%	64%	61%	58%	51%	25%
Private operators	31%	32%	36%	39%	42%	49%	75%

Source: Russian Railways

Pricing in the Russian railcar sector

Pricing for railcar services in Russia is unregulated except for services provided by Russian Railways which operates some of its own railcars (predominantly non-commercial fleet) and railcars leased in from its subsidiary, Freight Two. Prior to the creation of Freight One and Freight Two and the sale of a controlling stake in Freight One by Russian Railways, the regulated railcar tariff charged by Russian Railways was an effective benchmark for the market. However, since the majority of the Russian commercial railcar fleet is no longer owned by Russian Railways, the significance of the regulated railcar tariff as a market benchmark has reduced significantly.

However, the cost of freight rail transportation to end users remains influenced by regulated tariffs charged by Russian Railways. In particular, as a regulated natural monopoly, Russian Railways' tariffs relating to the provisions of the rail infrastructure together with locomotive traction services are regulated. These tariffs are set for all market participants and is subject to regular revision by the FTS.

BUSINESS

Overview

The Group is a leading private freight rail transportation group with operations in Russia, the CIS and the Baltic countries. Based on Rosstat data and the Group's management accounts, the market share of the Group on a Pro Forma basis for the MIT Acquisition amounted to 7.0 per cent. of the overall Russian freight rail Transportation Volumes, which by freight type included 15.3 per cent. of the total volume of metallurgical cargoes (ferrous metal, scrap metals, and ores), 9.9 per cent. of the total volume of oil products and oil, and 4.8 per cent. of the total volume of coal (thermal and coking) transported in Russia in 2011.

The Group's main business is the provision of freight rail transportation services, which accounted for 94.2 per cent. of the Pro Forma Adjusted Revenue in 2011, and is complemented by a railcar leasing business, which accounted for 5.4 per cent of the Pro Forma Adjusted Revenue in 2011. In 2011, the Pro Forma Freight Rail Turnover amounted to 144.9 billion tonnes-kilometres and Pro Forma Transportation Volume amounted to 86.4 million tonnes.

The Group provides services to more than 650 customers, and its key customers include companies in, or suppliers to or off-takers of a number of large Russian industrial groups in the metals and mining sector (including Evraz, Mechel, Metalloinvest, MMK and Severstal) and the oil products and oil sector (including GazpromNeft, Lukoil, Rosneft and TNK-BP).

The Pro Forma Total Fleet amounted to 57,461 units of rolling stock as at 31 March 2012 (including Pro Forma Owned Fleet of 51,147 units). In addition, as at 5 July 2012, the Group had taken delivery of an additional 6,616 railcars. It also expects to take delivery of a further 817 railcars by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). The Group's fleet is primarily focused on operating a fleet of gondola (open top) cars and rail tank cars. The Group also operates a limited number of locomotives for use in addition to the traction services provided by Russian Railways.

For the year ended 31 December 2011, the Group had Pro Forma Adjusted Revenue of USD 1,489 million and Pro Forma Adjusted EBITDA of USD 646 million.

History, Development and Group Structure

History and development

The Group was established during the early stages of the Reform in the early 2000s. It began life as two private companies, Sevtekhnotrans and New Forwarding Company, engaged in the freight rail transportation business. Since then, it has grown to become one of the leading privately owned freight rail transporation groups in Russia. It was the first private freight rail group with operations focusing on Russia to be publicly listed.

New Forwarding Company was established as a Russian Open Joint Stock Company by entities controlled by EIL in 2003, one of the Company's principal shareholders. In the same year, it received a freight rail carrier licence and began its principal business of providing freight rail transportation services. As the owner of the "Novaya Perevozochnaya Kompaniya" (New Forwarding Company) brand, New Forwarding Company is also responsible for marketing, sales and other customer-facing business activities of the Group. It is also the main contracting entity for freight rail transportation and other services provided by the Group.

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

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

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

In July 2008, the Board of Directors of the Company approved the creation of Ukrainian New Forwarding Company LLC, a wholly owned Ukrainian subsidiary. The subsidiary was registered later in 2008 to provide competitive, customer focused transportation services, primarily to large companies operating in the steel, iron ore and coking coal sectors, and to minimise Empty Runs by sourcing cargoes for gondola (open top) cars returning from delivering cargoes to Ukrainian destinations.

In December 2008, the Group acquired 61 per cent. of AS Spacecom (***Spacecom***) and 65 per cent. of Spacecom Trans (formerly Intopex Trans), two Estonian registered rail tank car leasing companies. These subsidiaries provided the Group with an increased presence in the oil products and oil transportation markets in Kazakhstan, Belarus and Russia. Subsequently, the Group increased its stake in Spacecom by 4.25 per cent. in 2011, taking its total interest to 65.25 per cent.

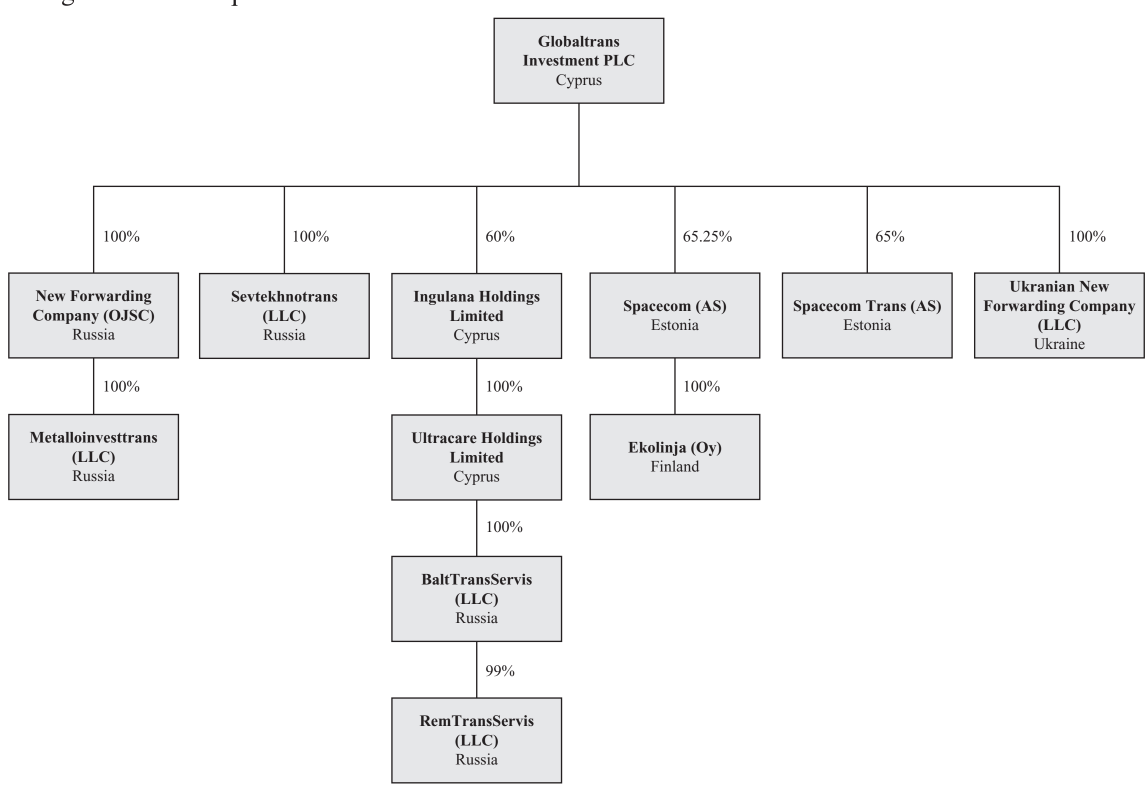
In December 2009, a secondary offering of GDRs was made by the Company and TIHL to international institutional investors outside of the United States and the Russian Federation, and to qualified institutional buyers in the United States. The offering generated approximately USD 100 million in gross proceeds for the Company.

Further, in December 2009, the Group acquired an effective 50 per cent. interest in BTS, one of the leading private Russian railway transportation services operators, specialising in shipping oil products and oil for Russian oil majors and other customers. Subsequently, the Group acquired a further 10 per cent. effective economic interest in BTS in 2011, taking its total economic interest to 60 per cent.

In May 2012, the Group acquired a 100 per cent. interest in MIT, the "captive" freight rail transportation operator of Metalloinvest. See *"Summary—MIT Acquisition"* and *"Business and Financial Information of MIT"*.

Corporate structure

The chart below sets forth the Group's corporate structure as at the date of this Offering Memorandum, including the MIT Acquisition.



STRENGTHS

The Group believes that it has a number of key competitive strengths, which have enabled it to increase its revenue, profits, and market share over the period since its creation. The Group believes that these strengths have enabled the Group to demonstrate a relatively resilient performance during the economic downturn in 2008-2009 and subsequent recovery and are expected to enable the Group to continue to capitalise on its leading position in the Russian freight rail transportation and logistics market in the future. These strengths include the following:

A leading independent private freight rail groups in Russia

With Pro Forma Total Fleet of 57,461 units of rolling stock (including Pro Forma Owned Fleet of 51,147 railcars) as at 31 March 2012, the Group has one of the largest rolling stock fleets among private freight rail groups in Russia. In addition, as at 5 July 2012, the Group had taken delivery of an additional 6,616 railcars. It also expects to take delivery of a further 817 railcars by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). The Group also has 56 locomotives as at 31 March 2012, which are included in the Pro Forma Total Fleet. The average age of the Pro Forma Total Fleet was 7.3 years as at 31 March 2012, which is relatively young compared to the fleets of the other large market participants in Russia.

The extensive size of the Group's fleet enables it to service some of the largest Russian rail transportation customers by volume of freight and provide a "one-stop-shop" service to its key customers that have production facilities, suppliers and cargo destinations in multiple locations. The Group believes that a large fleet is important to such customers because it offers flexibility to customers by providing that, in the case of unexpected requirements, additional railcars can be made available. In addition, the Group believes that its relatively young fleet, coupled with the regular maintenance it receives, enables the Group to provide customers with a high level of reliability.

Rolling stock fleet focused on gondola (open top) cars and rail tank cars

The Group's fleet includes gondola (open top) cars, which allow the Group to meet diverse customer needs and optimise fleet utilisation across various types of industrial cargo, as well as the more specialised rail tank cars. The backbone of the Group's fleet is represented by general purpose gondola (open top) cars, comprising 34,647 units in the Pro Forma Total Fleet (including Pro Forma Owned Fleet of 32,068 cars) and accounting for 60 per cent. of that fleet, as at 31 March 2012. As at 5 July 2012, the Group had taken delivery of an additional 6,181 gondola (open top) cars and expects to take delivery of a further 367 gondola (open top) cars by the end of August 2012, which will take the Total Fleet of gondola (open top) car at that time to 41,175 cars (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). Having a significant proportion of the fleet made up of universal gondola (open top) cars has enabled the Group to react rapidly to changes in transport requirements for different types of cargoes.

As at 31 March 2012, 38 per cent. of the Pro Forma Total Fleet, or 21,839 railcars, were represented by rail tank cars, excluding an additional 435 tank cars, which were delivered after that date until 5 July 2012 and a further 450 rail tank cars which are expected to be delivered by the end of August 2012. Rail tank cars provide stability to the Group's business through exposure to the oil products and oil transportation sector which benefited from relative stability in volumes during the recent economic downturn.

As at 31 March 2012, Pro Forma Owned Fleet made up 89 per cent. of the Pro Forma Total Fleet, or 51,147 units of rolling stock. Leased-in Fleet, consisting of 6,314 units of rolling stock, made up the remaining part of the fleet. The Group uses operating leasing to enable it to react quickly to changes in demand for its services without significant capital expenditure.

Active fleet management

The Group manages the dispatching and routing of its rolling stock to make its utilisation commercially efficient on outbound as well as on return journeys. This route optimisation is made possible by the Group's sophisticated centralised logistics function, its fleet size, geographical coverage, the presence of large Russian industrial groups and their suppliers among the Group's key customers, with production facilities and origins of supply and cargo destinations in multiple regions of Russia, as well as by the Group's growing number of other customers with transport needs that are complementary to the needs of the Group's key industrial customers.

To reduce the number of Empty Runs of the Group's fleet on return journeys and increase the proportion of time for which its rolling stock is generating revenue, the Group manages its cargo destinations and routes so as to match a customer order for rail shipment of cargo to a particular destination with another cargo shipment order from that destination to the point of origin, or to another destination where yet another customer shipment would originate, and so on until the rolling stock returns to its point of origin. The matching of routes and destinations creates efficient "route loops", in which the Group's rolling stock carries cargo on most legs of the journey, thus enhancing the commercial utilisation of the Group's rolling stock fleet and driving revenue and margin.

The reduction of Empty Runs is one of the major drivers of the Group's profitability as Empty Run Costs constitute one of the key cost items of the Group. In order to assess the efficiency of the Group's route network, management monitors the Empty Run Ratio (a management accounts metric calculated as the total in kilometres travelled empty divided by kilometres travelled loaded by the rolling stock operated by the Group (excluding Leased-out Fleet) in the reporting period). Empty Runs are only applicable to rolling stock operated, and do not include rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial use, or rolling stock leased-out. At the end of each trip, after the customers' cargo has been transported to its destination, the empty railcar needs to be routed to the next destination for new loading. On such empty journeys, the tariff for usage of railway infrastructure and locomotive traction becomes a direct cost for the Group. The Group believes that its ability to configure demanding logistics solutions via advanced destination management has made attractive opportunities available through the provision of transportation of services to major metals and mining groups.

Another important element of the Group's efficient fleet management is the use of block trains. Consisting only of the Group's rolling stock bound for the same destination, these trains, in contrast to trains consisting of rolling stock operated by various parties and/or heading to various destinations, do not require the time-consuming attachment and detachment of rolling stock at stations, thus improving delivery time and increasing railcar utilisation and overall efficiency. Block trains have enabled the Group to achieve relatively high levels of profitability even with high Empty Runs due to an increased railcar turnover, as well as the commercial terms which generally require the customer to bear a portion of the Empty Run Costs. By increasing its utilisation of block trains, the Group has increased the percentage of Empty Run kilometres the customer bears the cost for, and thereby reduced the share of Empty Run kilometres it pays for directly from 82 per cent. in 2010 to 78 per cent. in 2011.

Established and strong blue-chip customer base

While the Group has over 650 customers, approximately 67 per cent. of its Net Revenue from Operation of Rolling Stock in 2011 was derived from servicing the cargo flows associated with nine key industrial groups (including cargo flows associated with their suppliers and off-takers) operating in the metals and mining and oil products and oil sectors, Evraz, GazpromNeft, Lukoil, Mechel, Metalloinvest, MMK, Rosneft, Severstal and TNK-BP. Following the MIT Acquisition and the entry into the MIT Freight Supply Contracts, Metalloinvest has become an even more important customer.

Most of the Group's key customers have production facilities, sources of supply and production delivery destinations in multiple geographic locations. Their cargo transportation patterns are characterised by high volumes and a need for regular and timely delivery of raw materials and shipments of finished production. A close working relationship with these key customers and an in-depth understanding of their production processes and transportation needs allows the Group to use its advanced route optimisation methods to provide frequent and reliable transportation services, capitalise on increased outsourcing opportunities and respond to rapidly changing customer needs. These key customers also value the Group's independence from any major industrial group or government entity, which gives it the control and flexibility necessary to respond quickly to changing customer needs and provide a "one-stop shop" service to its key customers, which few of the Group's major competitors are able to offer.

The Group also works with a wide range of other corporate customers, including small and medium-sized enterprises. The presence of these other corporate customers among the overall customer base also supports expansion into new cargo types, as well as enhancing destination management and route optimisation processes, and enables the Group to benefit from the economic development of the Russian regions.

Experienced management team

The Group's core management team has spent most of their careers in the freight transport industry and have been employed by the Group for substantial periods of time. The Group's core management team have been actively involved in the business since the introduction of a competitive transport market environment in Russia and have managed it through changing and difficult economic cycles. They have significant experience in attracting customers as well as in competitive marketing of transportation services. They have also established a track record of expanding the Group's business through both organic growth and acquisitions, including the acquisition of Spacecom and Spacecom Trans in 2008, BTS in 2009 and the MIT Acquisition in May 2012, as well as integrating acquired businesses into its business and managing them optimally.

STRATEGY

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

(a) return-oriented fleet expansion and growth in business volumes;

(b) maintaining a resilient business profile; and

(c) maintaining operational excellence through improvements in operational efficiency.

Focusing on return oriented fleet expansion and growth in business volumes

The Group intends to expand the size of its fleet and seek return-oriented growth through opportunistic organic growth, including the acquisition of railcars from both producers and existing owners; selected strategic acquisitions and expansion into the locomotive segment following potential liberalisation of the locomotive services sector. As a listed company, the Group intends to take advantage of its ability to access institutional debt and equity capital markets to finance expansion as appropriate.

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

In 2011, the Group decided to temporarily scale-back its railcar investment programme because of inflated market prices for new railcars, which meant the Group's strict investment hurdle rates could not be met. The Group began to scale-up its purchases of railcars again in the final months of 2011 when prices had declined to more acceptable levels and demand for freight rail transportation services had increased. Since that time, the Group has contracted to purchase 10,958 new railcars, 539 of which had been delivered by 31 December 2011, a further 2,986 by 31 March 2012 and a further 6,616 by 5 July 2012. It expects to take delivery of the remaining 817 railcars by the end of August 2012, which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). The recently delivered railcars are already deployed and will be used to meet customer demand for additional transportation services and to replace leased-in railcars returned in late 2011 and in three months ended 31 March 2012.

In addition to its focus on organic growth, the Group intends to carefully consider the advantages and disadvantages of potential acquisitions of other freight rail companies or of such companies' rolling stock assets, with particular emphasis placed on the companies' rolling stock type and age, the potential for operational synergies, the potential for a reduction in the volatility of overall Group earnings, the acquisition of additional client relationships and the ability of a potential acquisition to contribute to an increase in the Group's market share or competitive position in a particular segment. As part of this strategy, the Group completed the MIT Acquisition, the "captive" freight rail transportation operator of Metalloinvest, in May 2012. For information on MIT, see *"Business and Financial Information of MIT"*.

The Group also intends to capitalise on its experience in the use of locomotives and expand further into this area of business once the relevant legal and regulatory framework is in place. As at 31 March 2012, the Group owned 53 locomotives and leased-in 3 locomotives under operating leases, which it generally uses for block trains, which allow it to provide a more competitive and integrated service to clients by offering better delivery times, increased railcar turnover speeds and greater reliability in terms of providing railcars for on-time dispatching.

Maintaining a resilient business profile

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

Management believes that, while the Group has historically been able to adjust the operations of the Group's gondola fleet by migrating to other cargo segments in order to mitigate much of the volume impact of change in demand for the transportation of particular cargoes, the Group's balanced railcar fleet of rail tank cars and gondola (open top) cars provides crucial diversification and, as such, a degree of protection against market downturns. In addition, management believes that this diversification improves the Group's ability to obtain debt financing on attractive terms. As at 31 March 2012, gondola (open top) cars and rail tank cars amounted to 60 per cent. and 38 per cent. of the Pro Forma Total Fleet.

Based on these beliefs, the Group seeks to ensure its fleet composition strikes the proper commercial balance by continuing its investment in gondola (open top) cars to position itself to benefit from the growing bulk cargo market and to selectively expand its presence in the oil products and oil transportation segment.

The Group intends to continue its current policy of leasing a portion of its rolling stock to third parties, in order to benefit from the lower volatility and typically longer contract terms of the leasing business, as well as to lease in railcars as appropriate to meet specific demand opportunities without committing capital.

Following the MIT Acquisition, the Group intends to utilise MIT's expertise in the use of Engaged Fleet to expand its service offering to include freight rail transportation services to key customers beyond what the Group is able to provide using its Owned Fleet and Leased-in Fleet. The principal difference between Engaged Fleet and Leased-in Fleet is that the Engaged Fleet is only engaged for a particular loaded trip and not leased for a fixed period of time. For additional information on MIT, see *"Business and Financial Information of MIT"*.

Maintaining operational excellence through improvements in operational efficiency

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

Destination management and route optimisation will remain at the forefront of the Group's measures to promote efficiency. The Group plans to achieve this by encouraging ongoing development and improvement in the use of its route optimisation software and by creating new efficient "route loops".

These efforts are expected to afford the Group the opportunity to capitalise on an increase in demand for the Group's services from corporate customers, including small and medium sized enterprises, increased imports to Russia as well as recovery of the country's construction industry, to reduce the Empty Runs of gondola (open top) cars. In 2011, the Group was able to effectively manage its Empty Run Costs, which increased by 15 per cent. compared to 2010 and was below the combined increase in the Group's Freight Rail Turnover (which increased by 14 per cent. year-on-year) and Russian Railways regulated tariff for the traction of empty railcars (up 8 per cent. year-on-year), through a combination of route optimisation and the increased usage of block trains. Management also believes expansion of the Group's railcar fleet has the potential to improve the efficiency of its destination management and route optimisation, as a larger fleet operating over a complex route network offers more options for optimisation than a smaller fleet operating over a smaller network. The MIT Acquisition has further expanded and enhanced the Group's extensive route and logistics network.

The Group also intends to work with its existing customers with a view to increasing the use of block trains on high-cargo volume routes. Management believes that operation of block trains offers benefits in terms of higher utilisation of railcars and faster transportation services to customers, as well as discounts on Russian Railways' infrastructure and locomotive tariffs that benefit the customer. Block trains enable a high level of profitability even with high Empty Runs due to an increased railcar turnover, as well as customers bearing a portion of the Empty Run Costs.

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

SERVICES

The following sections describe the Group's business excluding the effect of the MIT Acquisition unless otherwise stated. For information on MIT, see "Business and Financial Information of MIT".

Freight rail transportation

Operation of rolling stock, or freight rail transportation, is the Group's core service offering, which represented 93.1 per cent. of the Group's Adjusted Revenue in 2011, and the Group's Freight Rail Turnover amounted to 110.6 billion tonnes-kilometres with 69.6 million tonnes transported. The majority of the Group's operating rolling stock are gondola (open top) cars and rail tank cars, accounting for approximately 54.0 per cent. and 44.9 per cent. of the Group's Total Fleet, respectively, as at 31 March 2012. The Group's extensive transportation network covers all major industrial region in Russia, part of Ukraine and Kazakhstan, with a regional network encompassing eleven branches and several representative offices.

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

As an owner and lessee of rolling stock, the Group sells freight rail transportation services to its clients on an unregulated basis. Key clients of the Group include companies from a number of large Russian blue-chip industrial groups and companies active in the oil products and oil, metals and mining, coal and other sectors of the Russian economy. Longstanding client relationships, high quality of service and an experienced management team have enabled the Group to grow at a higher rate than the growth in the overall Russian freight rail transportation market in the last three years.

The following table sets forth the Group's market share of the overall Russian freight rail Transportation Volume and the Pro Forma Transportation Volume, in each case by key cargo types for the year ended 31 December 2011.

Cargo type	Share of the Group's Transportation Volume in Russia	Share of the Pro Forma Transportation Volume in Russia
Total Russian freight rail Transportation Volume	**5.6%**	**7.0%**
Metallurgical cargoes	10.4%	15.3%
Including:		
Ferrous metal	15.8%	19.2%
Scrap metal	15.3%	15.4%
Iron ore	6.8%	13.1%
Oil products and oil	9.9%	9.9%
Coal (thermal and coking)	3.6%	4.8%

Source: based on Rosstat data

The table below sets forth the Group's Freight Rail Turnover and Transportation Volumes, and the Pro Forma Freight Rail Turnover and the Pro Forma Transportation Volume, in each case by types of cargo for year ended 31 December 2011.

	For the year ended 31 December 2011			
	Group Freight Rail Turnover	Group Transportation Volumes	Pro Forma Freight Rail Turnover	Pro Forma Transportation Volumes
	(tonnes-km in billions)	(tonnes in millions)	(tonnes-km in billions)	(tonnes in millions)
Metallurgical cargoes				
Ferrous metal	25.5	11.6	30.0	14.1
Scrap metal	2.9	3.1	2.9	3.1
Iron ore	21.4	9.1	38.2	17.6
Total metallurgical cargoes	**49.8**	**23.9**	**71.1**	**34.8**
Oil products and oil	**30.9**	**24.7**	**30.9**	**24.7**
Construction materials				
Construction materials—crushed stone	2.9	3.2	4.5	4.5
Construction materials—cement	0.4	0.4	0.4	0.4
Construction materials—other	1.6	1.3	1.7	1.5
Total construction materials (including cement)	**4.9**	**4.9**	**6.6**	**6.4**
Coal (thermal coal and coking)	**19.4**	**11.1**	**29.9**	**14.8**
Other	**5.6**	**5.0**	**6.5**	**5.7**
Total	**110.6**	**69.6**	**144.9**	**86.4**

Operation of general-purpose gondola (open top) cars

General purpose gondola (open top) cars are used to transport a variety of cargo, including metallurgical cargoes, coal and various construction materials. By taking advantage of its large fleet of general purpose gondola (open top) cars, the Group has been able to attract a wide range of corporate customers, including small and medium-sized enterprises. This development of its customer base has allowed the Group to diversify its routes and expand into new cargo types, such as construction materials, thus providing opportunities to maximise the Group's destination management and route optimisation processes and reduce Empty Runs on return journeys.

Efficient management of gondola (open top) cars is a cornerstone of the Group's business model and drives the Group's profitability and competitive advantage. As discussed in *"—Strengths—Active fleet management"* above, the Group's management monitors the Empty Run Ratio for gondola (open top) cars in order to improve efficiency of the Group's operations and to reduce the number of Empty Runs.

Operation of rail tank cars

The Group believes that its presence in the oil products and oil rail transportation market provide certain advantages, including stable demand and high revenue generation. See *"Russian Rail Transportation Market"*. The Group has a stable market position in the transportation of oil products and oil due to its sizeable rolling stock of rail tank cars, including steam jacket rail tank cars, which are more efficient during winter months in certain regions of Russia, and liquefied petroleum gas (***LPG***) rail tank cars. Rail is currently the only means for effectively transporting fuel oil in Russia although small volumes are transported by water in the summer months. The product pipeline network is limited to diesel and gasoline and the Russian highway infrastructure is not sufficient to support shipment by road. Management believes that it is well placed to take advantage of the stability of the oil products and oil transportation market in Russia, and the Group has long-standing relationships with its major clients in the oil products and oil sector in Russia, which include, among others, oil majors such as GazpromNeft, Lukoil, Rosneft and TNK-BP.

Destination management and route optimisation is primarily applicable to general-purpose rolling stock. In the case of specialised rolling stock, such as rail tank cars, optimisation opportunities are limited by the specific nature of rail tank car logistic patterns.

Use of locomotives

As at 31 March 2012, the Group owned 53 locomotives and leased-in 3 locomotives under operating leases, which it generally uses for the traction of block trains. This enables the Group to provide a more competitive and integrated service to clients by offering better delivery times and turnover of railcars and greater reliability in terms of providing railcars for on-time dispatching. This efficiency is true of block trains in general (irrespective of whether the locomotives are provided by the Group or Russian Railways) but is operationally more advantageous when using the Group's own locomotives. This is particularly important for the big oil refineries as they operate continuous production facilities which have regular shipping needs as they do not have substantial storage capacity at their sites. Prompt and quick delivery and shipment of cargo provides customers with working capital advantages due to the high value of transported cargo. Locomotive crews are provided by Russian Railways.

The regulatory framework for becoming a carrier (and therefore, operating its own locomotives, rather than relying on crews provided by Russian Railways) has not yet been finalised and the timing for its implementation is uncertain. The Group plans to continue to monitor regulatory developments with a view to evaluating whether it will provide its own carrier services (if this becomes possible), including by reference to the different risks associated with performing those services, which are likely to be significantly different to the risks of the Group's current business.

Railcar leasing

The second major service offered by the Group is railcar leasing, which represented 6.5 per cent. of the Group's Adjusted Revenue in 2011. The Group's Leased-out Fleet is comprised primarily of rail tank cars and amounted to 7,650 units as at 31 March 2012. The railcar leasing business complements the Group's freight rail transportation activities providing stable, mostly US Dollar-denominated cash flows, which allows the Group to improve the balance of its currency exposure. The Group's key markets for its leasing business are Kazakhstan, Belarus and Russia.

Ancillary services

The Group also offers ancillary services, including freight forwarding and other services, which represented less than one per cent. of the Group's Adjusted Revenue in 2011. The Group's freight forwarding service involves the shipment of cargo carried by Russian Railways' rolling stock or other third parties' rolling stock.

Customers and Sales

Customer base

The Group's freight rail transportation customers are concentrated around large Russian industrial groups in the metals and mining, and oil products and oil sectors of the Russian economy, including Evraz, GazpromNeft, Lukoil, Mechel, Metalloinvest, MMK, Rosneft, Severstal and TNK-BP. Sales of the Group's services from cargo flows associated with these nine key industrial groups (including the cargo flows associated with their suppliers and off-takers) represented approximately 67 per cent. of the Group's Net Revenue from Operation of Rolling Stock in 2011. While a majority of the Group's revenues are accounted for by a few key customer groups, these key customers have typically maintained a very good record of making timely payment for the Group's services.

This key customer focus is aligned with the Group's focus on route optimisation and efficiency. Most of these key customers (particularly those in the metals and mining sector) have production facilities, sources of supply and production delivery destinations in multiple geographic locations. Their cargo transportation patterns are characterised by high cargo volumes and a need for regular and timely delivery of raw materials and shipment of finished production. See *"—Services—Freight rail transportation"*.

The table below shows the percentage of Net Revenue from Operation of Rolling Stock generated by the Group from services provided to its key customers and their suppliers in 2011.

Customer group and its suppliers	Customer's sector	Per cent. of the Group's Net Revenue from Operation of Rolling Stock for the year ended 31 December 2011
TNK-BP	Oil products and oil	20%
MMK	Metals and mining	11%
Evraz	Metals and mining	8%
Metalloinvest[(1)(2)]	Metals and mining	8%
Lukoil	Oil products and oil	5%
GazpromNeft	Oil products and oil	5%
Severstal	Metals and mining	3%
Rosneft	Oil products and oil	3%
Mechel	Metals and mining	2%
Other	Various	33%
Total		**100%**

(1) Includes Ural Steel, which has historically been reported separately as one of the Group's key customers.

(2) The portion of the Group's Net Revenue from Operation of Rolling Stock attributable to Metalloinvest will increase going forward as a result of the MIT Acquisition and the MIT Freight Service Contracts.

Of the Group's Net Revenue from Operation of Rolling Stock in the year ended 31 December 2011, 33 per cent. was attributable to corporate customers (other than the key customers listed in the table above), including small and medium-sized enterprises. The Group believes that serving these other customers allows the Group to diversify its destinations and routes and reduce Empty Runs.

Contract and payment terms

In line with industry practice, most customers receive the Group's services on the basis of annual contracts, which are automatically renewed as long as the customer has not requested otherwise. Annual contracts establish general terms for the provision of transportation services with volume, destination and price terms established and adjusted, generally, on a monthly basis in either a contractual addendum or an application for cargo transportation. Price adjustments are typically driven by prevailing competition levels among service providers, costs, currency rates and other market conditions. Volume adjustments are largely driven by changes in the transportation needs of the Group's customers and tend to be within tolerance rates of approximately five to ten per cent. of the cargo volumes originally stated with respect to the relevant period in the annual contract.

In the freight rail transportation business, the Group offers its customers three types of contracts: (a) a "lump sum" contract pursuant to which the customer is charged a single price for the Group's services, the infrastructure and locomotive charges payable to Russian Railways are borne by the Group and the customer has no interaction with Russian Railways; (b) a "railcar charge only" contract pursuant to which the customer pays only the railcar charge to the Group, and the infrastructure and locomotive charges for the loaded trip are payable by the customer to Russian Railways directly; and (c) another "railcar charge only" contract pursuant to which the Group pays the infrastructure and locomotive charges to Russian Railways and recharges the amount to the customer as a reimbursement.

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

Depending on the type of customer and length of customer relationship, customer contracts may require payment in advance of up to 100 per cent. of the services price before the Group's services commence, or before the start of the relevant delivery period. Alternatively, they may provide for payment in arrears a certain number of days following the provision of the relevant service.

PRICING

General

Pricing for railcar services in Russia is unregulated except for services provided by Russian Railways which currently operates its own freight railcars predominantly for non-commercial operations as well as the fleet temporarily leased-in from its subsidiary, Freight Two. The importance of Russian Railways' regulated railcar tariff as a market benchmark decreased significantly in 2011 following the completion of the spin-off of the majority of its commercial freight fleet into subsidiaries that operate in an unregulated pricing environment and the subsequent sale of a 75 per cent. minus two share interest in Freight One. However, charges payable to Russian Railways for infrastructure and locomotive usage are regulated and, as indicated above under *"—Contract and payment terms"*, are either included in the overall price charged by the railcar operator, paid by the customer directly to Russian Railways or paid by the railcar operator and reimbursed to the operator by the customer.

Factors that affect pricing for railcar services in Russia are route configuration, railcar availability in specific locations, the type of railcar used and the distance carried as well as competition from other operators. Another factor is whether it is possible for the railcar to be loaded with cargo for a substantial part of the return journey.

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

The pricing for leasing of rolling stock is also unregulated, and as a result all prices are based on market supply and demand. The Group's Leased-out Fleet is comprised primarily of rail tank cars. Volumes of oil products and oil transported in Russia and Kazakhstan are characterised by a high degree of stability, reflecting low elasticity of supply and demand for these cargoes. The overall rail tank car fleet is also stable. As a result of these factors, pricing for leasing services is characterised by low volatility.

EQUIPMENT

The Group has an extensive fleet of railcars and locomotives. As at 31 March 2012, the Group's Total Fleet consisted of 48,518 units and the Pro Forma Total Fleet consisted of 57,461 units. As at 5 July 2012, the Group had taken delivery of an additional 6,616 railcars and expects to take delivery of a further 817 units by the end of August 2012 which will take the Owned Fleet at that time to 58,580 units and the Total Fleet at that time to approximately 64,000 units (assuming the Group's Leased-in Fleet remains at approximately the same levels as at 31 March 2012 and MIT's Leased-in Fleet is terminated). MIT's Total Fleet as at 31 March 2012 consisted of 8,943 units of rolling stock (including Owned Fleet of 8,256 units of rolling stock, or 92 per cent.).

The table below sets out information on the number and source of the Group's Total Fleet and the Pro Forma Total Fleet, in each case by category as at 31 March 2012.

	Group's Total Fleet				Pro Forma Total Fleet[3]			
Type of rolling stock fleet[1]	**Owned Fleet**	**Leased-in Fleet**	**Total Fleet**	**Percentage of Group's Total Fleet**	**Owned Fleet**	**Leased-in Fleet**	**Total Fleet**	**Percentage of Pro Forma Total Fleet**
Gondola (open top) cars	24,217	1,977	26,194	54%	32,068	2,579	34,647	60%
Rail tank cars[2]	18,131	3,647	21,778	45%	18,192	3,647	21,839	38%
Hopper cars	370	—	370	1%	713	85	798	1%
Locomotives	53	3	56	0%	53	3	56	0%
Flat cars	120	—	120	0%	121	—	121	0%
Total	**42,891**	**5,627**	**48,518**	**100%**	**51,147**	**6,314**	**57,461**	**100%**

(1) Does not include 6,616 railcars, which the Group had taken delivery of as at 5 July 2012, nor an additional 817 railcars, which the Group expects to take delivery of by the end of August 2012.

(2) Rail tank cars include 2,483 steam jacket rail tank cars, regular rail tank cars and 270 LPG rail tank cars.

(3) For details on MIT's Total Fleet, see *"Business and Financial Condition of MIT"*.

The largest group of railcars in the Group's Total Fleet is gondola (open top) cars. The general purpose gondola (open top) cars can be used to carry a variety of cargoes, including ferrous metals, scrap metal, ores, crushed stone, coal, timber and pipes. As at 31 March 2012, gondola (open top) cars accounted for approximately 54 per cent. of the Group's Total Fleet, or 26,194 railcars. This percentage increased following the MIT Acquisition as 95 per cent. of MIT's Owned Fleet were gondola (open top) cars.

The second largest group of railcars in the Group's Total Fleet is rail tank cars, utilised predominantly for transportation of oil products and oil. As at 31 March 2012, rail tank cars accounted for approximately 45 per cent. of the Group's Total Fleet, or 21,778 railcars. Approximately 11.4 per cent. of the Group's rail tank car fleet is steam jacket rail tank cars, which enables faster loading and unloading times of oil products and oil during winter months, thus improving fleet utilisation. The Group's fleet of rail tank cars also includes 270 LPG rail tank cars.

Other railcars include 370 hopper cars as at 31 March 2012, which the Group predominantly utilises for transportation of cement.

The average age of the Group's Owned Fleet was approximately 7.0 years while the average age of MIT's Owned Fleet was approximately 9.0 years, in each case as at 31 March 2012. The average age of the Pro Forma Owned Fleet was approximately 7.3 years as at 31 March 2012.

The Group relies on operating leasing of rolling stock from third parties as a reliable way to enable it to quickly react to changes in demand for freight rail transportation services without significant capital expenditure.

Supply of rolling stock

Most of the Group's rolling stock is owned or leased under finance leases, and the Group intends to continue to acquire the majority of rolling stock to be operated by the Group in the future. The Group purchases most of its rolling stock new from Russian and Ukrainian manufacturers. Purchase terms usually involve advance payments and quality control at the certification centres of Russian Railways or Ukrzalisnitsa (Ukrainian Railways).

Repair and maintenance

Because of the importance of reliable and efficiently functioning rolling stock in the Group's business, proper maintenance and repair are key for the Group's success. The Group's rolling stock undergoes rigorous regular repair and maintenance and the Group applies strict standards to ensure its fleet is well maintained and repaired.

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

(i) Scheduled repairs can be carried out on the basis of either the period of operation or the mileage of operation. According to current regulation, "depot repairs" are performed two to three years after construction, or 210,000 kilometres, and thereafter once a year, or 110,000 to 120,000 kilometres, with the exception of "post-capital repairs", which take place two years after a "capital repair"; and "capital repairs" which take place 10 to 13 years after construction and 7 to 12 years after a "capital repair".

(ii) Unscheduled repairs are driven by the technical condition of the railcar and are directly related to the term and intensity of operation. Based on experience, such "ad hoc repairs" tend to be required every 18 to 24 months and "capital repairs or replacement of wheel pairs" tend to be required every seven to nine years.

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

In the year ended 31 December 2011, the Group's costs associated with repair and maintenance amounted to USD 76,243 thousand. The Group expects its repair and maintenance costs to increase as a result of expansion and ageing of the Group's fleet.

The Group primarily uses repair facilities owned by Russian Railways, but it also has contracts with privately owned depots. The Group monitors the maintenance schedules for each railcar using the *MC—Slezhenie* system, which can detect a railcar's proximity to within two to three hours of one of the contracted repair depots or shops, enabling rapid detachment of a railcar requiring regular maintenance or emergency repairs.

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

The Group owns a railcar repair and maintenance depot in Ivanovo, which is conveniently located near to the oil products and oil transportation routes serviced by the Group. As a result, additional transportation time is not required for routine repairs and preventative maintenance that take place at Ivanovo. In addition, the Group owns a locomotive repair depot in Rybinsk. By carrying out its own repair and maintenance of a portion of its rail tank cars in Ivanovo and locomotives in Rybinsk, the Group is better able to control the quality, efficiency and cost of repairs and managed to optimise its repair cost by substituting the most expensive depots with its own repairs. In addition, it is less dependent on Russian Railways for repair services, although Russian Railways does remain responsible for approval of the repaired railcars and locomotives for the public railway infrastructure.

COMPETITIVE ENVIRONMENT

The Russian freight rail transportation market has become increasingly competitive in recent years. See *"Russian Rail Transportation Market"* for details of the competitive environment in which the Group operates and its key competitors, and *"—Services—Freight rail transportation"* above for details of the Group's market share of overall Russian freight rail transportation volumes by cargo type.

INFORMATION TECHNOLOGY

The importance and sophistication of the logistics, dispatching, rolling stock tracking and cargo tracing components of the Group's services offering requires the employment of advanced information technology systems and software that are sufficient for the Group's current needs and are scalable to support the growth in volume of the Group's operations.

The Group's operations are dependent on four specialised software systems, for which the Group has, to the extent required, obtained non-exclusive licences. Each of these software programs has been specifically customised by the Group's own information technology professionals to the Group's requirements.

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

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

EMPLOYEES

The following table sets forth the Group's employees by department (simplified), as at 31 March 2012, 31 December 2011 and 2010.

	As at 31 March	As at 31 December	
Department	**2012**	**2011**	**2010**
Administrative[(1)]	326	331	317
Operations[(2)]	686	679	642
Total	**1,012**	**1,009**	**958**

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

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

Source: Group management accounts (cannot be directly derived from the Consolidated Financial Statements or the Interim Condensed Consolidated Financial Information).

As at 31 December 2011, MIT had 175 employees.

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

INSURANCE

The rolling stock owned or leased by the Group from third parties under finance leases is insured for loss or damage caused to the rolling stock. The existing legal liability regime attaches all third party liability to the railway carrier company (Russian Railways is the only railway carrier) or the owner of the transported cargo but not on the railcar or locomotive operating companies such as the Group. Under the existing regime, the Group does not believe it has significant exposure to third party liability in the ordinary course of its business. However, BTS and Sevtekhnotrans are required to maintain third-party liability insurance pursuant to certain financing arrangements.

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

Environmental

The Group believes that, in general, its operations do not create potential environmental liabilities. Although its railcars or locomotives operated by its subsidiaries may sometimes transport environmentally sensitive materials, any spillage or leakage of such materials is the responsibility of Russian Railways as it is the only entity recognised as a railway carrier in Russia and bears the risk of environmental liabilities. The Group believes that it is in compliance with applicable environmental legislation. If Russian Railways successfully lobbies for a change in the current environmental liability regime and operators of cars and locomotives are treated equally with Russian Railways, the Group may then be exposed to potential environmental liabilities if it transports environmentally sensitive cargoes.

The Group is not aware of any current, pending or potential material environmental claims against it. The Group did not record any material liabilities associated with, or make any material payments relating to, environmental costs as at or in the three months ended 31 March 2012 or as at or in the years ended 31 December 2011 or 2010.

Intellectual Property and Significant Licences

The Group has registered the following trademarks: (1) two trademarks for "Novaya Perevozochnaya Kompaniya" (New Forwarding Company) with the Federal Service for Intellectual Property, Patents and Trademarks of the Russian Federation on 12 May 2005 and 16 July 2007 with a trademark priority commencing on 24 May 2004 for the first trademark and on 22 September 2005 for the second. The registration of the two trademarks are valid until 24 May 2014 and 22 September 2015, respectively; (2) six trademarks for the Group with the Registrar of Trademarks Office in Cyprus. These applications were filed on 9 September 2008. Based on these applications, the Group filed an international trademark application at the World Intellectual Property Organisation (WIPO). The countries that the Company designated were: Armenia, Belarus, China, European Community, Georgia, Kyrgyzstan, Moldova, the Russian Federation, Turkmenistan, Ukraine, the United States of America and Uzbekistan. The International Registration number for the Company's trademark is 1008439 dated 28 November 2008.

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

Litigation and Other Proceedings

From time to time, the Group is involved in litigation as a plaintiff or defendant in court proceedings arising in the ordinary course of its business. Other than as referred to in *"Additional Information"*, the Group does not believe that any of the litigation or proceedings in which the Group has been or is currently involved is likely, individually or in aggregate, to have a material adverse effect on its business or financial condition.

BUSINESS AND FINANCIAL INFORMATION OF MIT

MIT ACQUISITION

In May 2012, the Group acquired a 100 per cent. interest in MIT, the "captive" freight rail transportation operator of Metalloinvest, for USD 540 million on a cash and debt free basis, assuming normalised working capital and no capital commitments. For further details of the MIT Acquisition, see "*Summary—MIT Acquisition*" and for further details of the MIT business, see "*—Business*". The MIT Acquisition was financed in part by the proceeds of a USD 400 million three-year floating rate secured credit facility provided by Sberbank, entered into in April 2012. For further details of that loan and the related security, see "*Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition facility*".

In connection with the MIT Acquisition, MIT has entered into the MIT Freight Service Contracts with the Metalloinvest entities that produce and trade iron ores and HBI. These arrangements provide for MIT to manage 100 per cent. of Metalloinvest's rail transportation volumes for the year ended 31 May 2013 and give MIT a right of first refusal over 60 per cent. of such volumes for each of the years ended 31 May 2014 and 2015, subject to certain conditions. The price of these services is fixed for different cargoes and routes for the year ended 31 May 2013 but will be determined by reference to market prices (established from a tender among large operators) in the subsequent two years. The volume of these cargoes is expected to be larger than the capacity of MIT's Owned Fleet. As a result, MIT will lease-in rolling stock under operating leases or use Engaged Fleet to service these cargoes in part. For further details of the MIT Freight Service Contracts, see "*Material Contracts and Related Party Transactions—Material Contracts—MIT Freight Service Contracts*". See also "*Risk Factors—Risks Relating to MIT*".

Since the completion of the MIT Acquisition, the Group has started to integrate MIT's business into its own, including by appointing new management.

BUSINESS

MIT, specialising in the transportation of iron ore and other metallurgical products in Russia, was formerly owned by Metalloinvest and was its "captive" railway transportation services operator, managing all of that group's freight rail transportation. As at 31 March 2012, had a total of 8,943 railcars (including Owned Fleet of 8,256 railcars), of which 8,453 were gondola (open top) cars. MIT's Adjusted Revenue for the year ended 31 December 2011 was RUB 10,122,665 thousand. Net Revenue from Operation of Rolling Stock for the year ended 31 December 2011 was RUB 9,983,095 thousand. Its Adjusted EBITDA for the year ended 31 December 2011 was RUB 4,106,745 thousand.

As the "captive" freight rail operator for Metalloinvest, the largest iron ore producer in Russia, MIT arranged the logistical solutions required to transport iron ore and other metallurgical cargoes produced by Metalloinvest that needed to be transported by rail to steel production facilities and customers. MIT has historically used both its Total Fleet and Engaged Fleet to service these cargoes, and together with the Group's Owned Fleet, will continue to do so pursuant to the MIT Freight Service Contracts.

The aggregate Transportation Volume for MIT's Total Fleet and its Engaged Fleet amounted to 44.2 million tonnes in the year ended 31 December 2011 and accounted for approximately 16 per cent. of metallurgical cargo volumes and 23 per cent. of iron ore volumes shipped by rail in Russia in that year, according to Rosstat. In the years ended 31 December 2011 and 2010, MIT handled 100 per cent. of Metalloinvest's cargoes carried by rail, with 38 per cent. (or 16.8 million tonnes) and 39 per cent. (or 16.8 million tonnes), respectively, of MIT's aggregate Transportation Volume carried by its Total Fleet and the remainder by Engaged Fleet. MIT's core activity is providing a "one-stop" logistics solution for servicing all of Metalloinvest's metallurgical cargo flows through its Total Fleet and Engaged Fleet.

MIT is a significant railway operator in Russia by number of gondola (open top) cars in operation. The size of its Total Fleet enables MIT to service a substantial share of Metalloinvest's rail transportation requirements. The table below sets out information on the number and source of MIT's Total Fleet by category as at 31 March 2012.

Units	Owned Fleet(1)	Leased-in Fleet(1)	Total Fleet
Gondola (open top) cars	7,851	602	8,453
Rail tank cars	61	—	61
Hopper cars	343	85	428
Flat cars	1	—	1
Total	**8,256**	**687**	**8,943**

(1) For definitions of Owned Fleet and Leased-in Fleet, see "*Presentation of Financial and Other Information—Other Data and Information—Fleet terminology*".

Since 31 December 2011, MIT has returned the majority of its Leased-in Fleet of gondola (open top) cars.

The average age of MIT's Owned Fleet as at 31 March 2012 was 9.1 years for its gondola (open top) cars, 7.9 years for its rail tank cars, 6.4 years for its hopper cars and 16.9 years for its flat car.

For Metalloinvest's metallurgical cargo flows that cannot be accommodated by its Owned Fleet, MIT leases in fleet or arranges logistical solutions through the use of Engaged Fleet. For Engaged Fleet, MIT subcontracts to or engages a third party operator for a single loaded trip from the point of origination to the cargo's destination, at which point the railcar is then released to its owner. The principal differences between Engaged Fleet and Leased-in Fleet is that the Engaged Fleet is only engaged for a particular loaded trip and not leased for a fixed period of time and there are no Empty Run Costs or repair and maintenance costs in connection with Engaged Fleet.

MIT manages its Total Fleet and Engaged Fleet from its main office in Moscow and four offices in key regions of operation: Zheleznogorsk, Stariy Oscol, Voronezh and Novotroitsk.

Key customers of MIT are Metalloinvest's entities producing and trading in iron ore and steel, including MGOK, Ural Steel, Metalloinvest Trading AG, LGOK and OEMK, which resulted in the majority of MIT's revenue being received from Metalloinvest's entities in the year ended 31 December 2011.

Iron ore raw materials are MIT's primary cargo, accounting for approximately 50 per cent. of 16.8 million tonnes volumes by or using its Total Fleet in the year ended 31 December 2011.

MIT had 175 employees as at 31 December 2011. MIT's managers have extensive experience in the railway industry. Under the terms of the MIT Acquisition, although there are certain non-solicitation and non-hiring restrictions, Metalloinvest is permitted to hire certain key employees of MIT in the first three months after the date of the MIT Acquisition Agreement (as defined below). See "*Material Contracts and Related Party Transactions—Material Contracts—MIT Acquisition Agreement*".

SELECTED FINANCIAL AND OPERATING INFORMATION

The following table sets forth the principal components of MIT's income statement extracted from the MIT Financial Statements included in this Offering Memorandum in Roubles for the years ended 31 December 2011 and 2010. The information contained in such income statement below the operating profit line is not set out below as the MIT Acquisition has been done on a debt-free basis and accordingly, an analysis of that additional information is not considered relevant to its business in future periods. See "*—MIT Acquisition*" above.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue	17,163,512	19,769,436
Cost of sales	(13,003,196)	(16,330,992)
Gross profit	**4,160,316**	**3,438,444**
General and administrative expenses	(327,064)	(199,513)
Other operating expenses	(238,422)	(5,220)
Operating profit	**3,594,830**	**3,233,711**

Because MIT was acquired by the Group on a debt-free basis and subject to certain adjustments that materially affect its balance sheet as at 31 December 2011, extracts from that balance sheet have not been included in this section. For further information on MIT's balance sheet, see the MIT Financial Statements.

Additional (Non-GAAP) Financial Information

The following table sets forth additional unaudited non-GAAP financial information for MIT in Roubles for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	2010
	(RUB in thousands, unless otherwise indicated)	
Adjusted Revenue(1)(2)	10,122,665	8,779,859
Net Revenue from Operation of Rolling Stock—operated fleet(1)(3)	6,233,455	4,852,681
Net revenue from engaged fleet(1)(4)	3,749,640	3,811,204
EBITDA(1)(5)	4,110,414	3,747,361
Adjusted EBITDA(1)(6)	4,106,745	3,752,581
Adjusted EBITDA Margin (%)(1)(6)	40.6%	42.7%
Adjusted Profit for the Period(1)(7)	2,579,886	2,085,079
Empty Run Costs(1)(8)	1,322,205	1,009,013
ROCE (%)(1)(9)	37%	28%

Operating Information

	Years ended 31 December	
	2011	2010
Freight Rail Turnover (billion tonnes-km)(10)	34.4	41.6
Transportation Volume (million tonnes)(11)	16.8	16.8
Average Price Per Trip (USD)(12)	859.2	646.5
Empty Run Ratio for gondola (open top) cars(13)	34	24
Empty Run Ratio for other cars(13)	33	34
Total Empty Run Ratio(14)	34	24
Share of Empty Run Kilometres Paid by MIT(15)	100	100
Average Number of Loaded Trips Per Railcar(16)	26.3	30.9
Average Distance of Loaded Trips (kilometres)(17)	2,038.3	2,465.0
Average Rolling Stock Operated(18)	9,399	8,005
Owned Fleet (at period end)	8,256	8,266
Leased-in Fleet (at period end)	946	729
Total Fleet (at period end)	9,202	8,995

(1) Adjusted Revenue, Net Revenue from Operation of Rolling Stock—operated fleet, Net revenue from engaged fleet, EBITDA, Adjusted EBITDA, Adjusted Profit for the Period, Empty Run Costs and ROCE are non-GAAP measures presented as

supplemental measures of MIT's operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any one of them in isolation, or any combination of them together, as a substitute for analysis of MIT's results as reported under IFRS. See "*Presentation of Financial and Other Information*". Reconciliations of Adjusted Revenue to revenue, Net Revenue from Operation of Rolling Stock to revenue from transportation services, EBITDA and Adjusted EBITDA to change in net assets attributable to participants, and Adjusted Profit for the Period to change in net assets attributable to participants are set out below.

Reconciliation of Adjusted Revenue to Revenue

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services	17,047,726	19,677,154
Other revenue	115,786	92,282
Infrastructure and locomotive tariffs: loaded trips*	(2,372,384)	(5,041,905)
Infrastructure and locomotive tariffs: engaged fleet*	(4,668,463)	(5,947,672)
Adjusted Revenue	**10,122,665**	**8,779,859**

* Derived from management accounts.

Reconciliation of Net Revenue from Operation of Rolling Stock and Net Revenue from Engaged Fleet to Revenue from Transportation Services

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services	**17,047,726**	**19,677,154**
Infrastructure and locomotive tariffs: loaded trips*	(2,372,384)	(5,041,905)
Infrastructure and locomotive tariffs: engaged fleet*	(4,668,463)	(5,947,672)
Net Revenue from Operation of Rolling Stock	**10,006,879**	**8,687,577**

* Derived from management accounts.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services—operated fleet	**8,605,839**	**9,894,586**
Infrastructure and locomotive tariffs: loaded trips*	(2,372,384)	(5,041,905)
Net Revenue from Operation of Rolling Stock—operated fleet	**6,233,455**	**4,852,681**

* Derived from management accounts.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services—engaged fleet	**8,418,103**	**9,758,876**
Infrastructure and locomotive tariffs: engaged fleet*	(4,668,463)	(5,947,672)
Net revenue from engaged fleet	**3,749,640**	**3,811,204**

Reconciliation of EBITDA and Adjusted EBITDA to Change in Net Assets Attributable to Participants

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Change in Net Assets Attributable to Participants	**(3,030,436)**	**2,085,079**
Plus (Minus)		
Income tax charge	652,290	532,621
Finance income	(221,144)	(171,003)
Finance costs	6,194,120	787,014
Depreciation	515,584	513,650
EBITDA	**4,110,414**	**3,747,361**
Plus (Minus)		
Loss/(gain) on disposal of property, plant and equipment	(4,751)	3,193
Net foreign exchange loss/(gain) on operating activities, net	(15,559)	8,772
Social costs	194	2,953
Other (income)/expenses	16,447	(9,698)
Adjusted EBITDA	**4,106,745**	**3,752,581**

Reconciliation of Adjusted Profit for the Period to Change in Net Assets Attributable to Participants

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Change in Net Assets Attributable to Participants	**(3,030,436)**	**2,085,079**
Plus		
Distribution to participants	5,610,322	—
Adjusted Profit for the Period	**2,579,886**	**2,085,079**

(2) Adjusted Revenue is calculated as revenue less infrastructure and locomotive tariffs: loaded trips (derived from management accounts) and infrastructure and locomotive tariffs: engaged fleet (derived from management accounts).

(3) Net Revenue from Operation of Rolling Stock—operated fleet is defined as revenue from transportation services—operated fleet (represented as part of transportation services and derived from management accounts) less infrastructure and locomotive tariffs: loaded trips (represented as part of railway tariff and derived from management accounts).

(4) Net Revenue from engaged fleet is defined as revenue from transportation services—engaged fleet (represented as part of transportation services and derived from management accounts) less infrastructure and locomotive tariffs: engaged fleet (represented as part of railway tariff and derived from management accounts).

(5) EBITDA is calculated as the sum of change in net assets attributable to participants, income tax charge, finance income, finance costs and depreciation.

(6) Adjusted EBITDA represents EBITDA excluding foreign exchange gain/(loss) on operating activities, net, gain/(loss) on disposal of property, plant and equipment, social costs and other (expenses)/income. Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by Adjusted Revenue, expressed as a percentage.

(7) Adjusted Profit for the Period is calculated as change in net assets attributable to participants excluding distribution to participants.

(8) Empty Run Costs (which show the costs payable to Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the railway tariff component of cost of sales.

(9) ROCE is defined as Adjusted EBITDA less depreciation divided by the sum of average balances between balance sheet dates of total equity, total borrowings and total finance lease liability and total borrowings.

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

(11) Transportation Volume is a measure of freight carriage activity over a particular period measuring weight of cargo carried in million tonnes or thousand tonnes.

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

(13) Empty Run Ratio is calculated as the total of empty trips in kilometres by relevant rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out).

(14) Total Empty Run Ratio is calculated as total kilometres travelled empty divided by total kilometres travelled loaded by the fleet operated by MIT (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

(15) Share of Empty Run Kilometres paid by MIT is defined as the percentage of Empty Run kilometres paid by MIT divided by the total amount of Empty Run kilometres incurred by the fleet operated by MIT (not including relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out) in the relevant period.

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

(17) Average Distance of Loaded Trip is calculated as the sum of distances of all loaded trips for a period divided by the number of loaded trips for the same period.

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

Recent Developments

In February 2012, a new participant of MIT, a related party at that time, made a cash contribution to MIT in the amount of RUB 1,778,000 thousand. In March 2012, MIT paid RUB 2,117,478 thousand to a lessor of rolling stock and settled certain finance lease liabilities in their entirety ahead of the scheduled maturity using, in part, the proceeds of such cash contribution.

In April 2012, prior to the MIT Acquisition, MIT disposed of a partially constructed railcar depot. This was shown on the balance sheet as at 31 December 2011 with a carrying value of RUB 162,746 thousand as assets held for sale. The profit recognised on the sale was not material.

FACTORS AFFECTING MIT'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MIT's financial results have been affected, and results are likely to be affected in the future by a wide variety of factors including the factors affecting the results and future results of the Group described under "Management's Discussion and Analysis of Financial Condition and Results of Operations".

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

Revenue and Adjusted Revenue

The following tables set forth revenue and adjusted revenue, broken down by type of revenue-generating activity of MIT for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	**2010**
	(RUB in thousands)	
Revenue		
Transportation services	17,047,726	19,677,154
Other revenue	115,786	92,282
Total Revenue	**17,163,512**	**19,769,436**

Revenue decreased by RUB 2,605,924 thousand, or 13.2 per cent., from RUB 19,769,436 thousand for the year ended 31 December 2010 to RUB 17,163,512 thousand for the year ended 31 December 2011. This decrease was primarily due to a change in the terms of MIT's export oriented transportation contracts, whereby the infrastructure and locomotive tariffs were no longer paid by MIT, as also reflected in the table below.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Adjusted Revenue		
Transportation services	17,047,726	19,677,154
Other revenue	115,786	92,282
Infrastructure and locomotive tariffs: loaded trips*	(2,372,384)	(5,041,905)
Infrastructure and locomotive tariffs: engaged fleet*	(4,668,463)	(5,947,672)
Adjusted Revenue	**10,122,665**	**8,779,859**

* Derived from management accounts.

For the purposes of the below discussion, Adjusted Revenue has been broken down to show, (i) net revenue from operation of rolling stock relating to operated fleet, (ii) net revenue from operation of rolling stock relating to engaged fleet, and (iii) other revenues generated by the Group's non-core business activities, including operating lease of rolling stock, freight forwarding and other.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Net revenue from operation of rolling stock—operated fleet	6,233,455	4,852,681
Net revenue from engaged fleet	3,749,640	3,811,204
Operating leasing of rolling stock	113,660	107,597
Railway transportation—freight forwarding	4,961	5,153
Other	20,949	3,224
Adjusted Revenue	**10,122,665**	**8,779,859**

Adjusted Revenue increased by RUB 1,342,806 thousand, or 15.3 per cent., from RUB 8,779,859 thousand for the year ended 31 December 2010 to RUB 10,122,665 thousand for the year ended 31 December 2011. This increase was primarily due to an increase in net revenue from operation of rolling stock relating to operated fleet of 28.5 per cent. from RUB 4,852,681 thousand for the year ended 31 December 2010 to RUB 6,233,455 thousand for the year ended 31 December 2011.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services—operated fleet	8,605,839	9,894,586
Infrastructure and locomotive tariffs: loaded trips*	(2,372,384)	(5,041,905)
Net revenue from operation of rolling stock—operated fleet	**6,233,455**	**4,852,681**

* Derived from management accounts.

Net revenue from operation of rolling stock—operated fleet is the major component of Adjusted Revenue and accounted for 62 per cent. of Adjusted Revenue in 2011. Net revenue from operation of rolling stock—operated fleet in 2011 increased by RUB 1,380,774 thousand, or 28.5 per cent., from RUB 4,852,681 thousand for the year ended 31 December 2010 to RUB 6,233,455 thousand for the year ended 31 December 2011. The increase was primarily due to an increase in the average number of rolling stock in operation by 17.4 per cent. or 1,394 railcars for the year ended 31 December 2011 as compared to the year ended 31 December 2010 and an increase in the Average Price Per Loaded Trip of 28.6 per cent. for the year ended 31 December 2011 partially offset by a 14.9 per cent. decrease in the Average Number of Loaded Trips Per Railcar by 4.6 trips to 26.3 loaded trips per railcar for the year ended 31 December 2011.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Revenue from transportation services—engaged fleet	8,418,103	9,758,876
Infrastructure and locomotive tariffs: engaged fleet*	(4,668,463)	(5,947,672)
Net revenue from engaged fleet	**3,749,640**	**3,811,204**

* Derived from management accounts.

Net revenue from engaged fleet accounted for 37 per cent. of Adjusted Revenue in 2011. Net revenue from engaged fleet decreased by RUB 61,564 thousand, or 1.6 per cent., from RUB 3,811,204 thousand for the year ended 31 Dcember 2010 to RUB 3,749,640 thousand for the year ended 31 December 2011. This decrease was primarily due to a decrease in the total number of loaded trips using Engaged Fleet as a result of a decrease in the use of Engaged Fleet partially offset by an increase in the Average Price Per Loaded Trip for Engaged Fleet.

Revenue from operating leasing of rolling stock increased by or RUB 6,063 thousand, or 5.6 percent., for the year ended 31 December 2011. This increase was primarily due to an increase of average lease rates per car per day in 2011 compared to 2010. During this period, the average number of rolling stock leased-out was stable.

Other revenue increased by RUB 17,725 thousand, or 549.8 per cent. from RUB 3,224 thousand for the year ended 31 December 2010 to RUB 20,949 thousand for the year ended 31 December 2011. This increase was primarily due to an increase in revenue subleasing surplus office space.

Cost of sales

The following table sets forth a breakdown of cost of sales for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Railway tariff	8,363,052	11,998,590
Transportation operator services	2,816,601	3,295,619
Rolling stock operating lease rentals	780,112	35,619
Depreciation	512,955	508,751
Repairs and maintenance	371,172	369,464
Labour costs	107,515	72,260
Property and other taxes	26,567	28,088
Other	25,222	22,601
Total	**13,003,196**	**16,330,992**

Cost of sales decreased by RUB 3,327,796 thousand, or 20.4 per cent., from RUB 16,330,992 thousand for the year ended 31 December 2010 to RUB 13,003,196 thousand for the year ended 31 December 2011.

For the purpose of presenting the dynamics and nature of the Group's cost base, the railway tariff line item of cost of sales has been divided as presented below.

	Years ended 31 December	
	2011	2010
	(RUB in thousands)	
Infrastructure and locomotive tariffs: loaded trips*	2,372,384	5,041,905
Infrastructure and locomotive tariffs: engaged fleet*	4,668,463	5,947,672
Empty Run Costs	1,322,205	1,009,013
Railway Tariff	**8,363,052**	**11,998,590**

* Derived from management accounts.

Infrastructure and locomotive tariff: loaded trips and infrastructure and locomotive tariff: engaged fleet are "pass-through" cost items for MIT and are reflected in equal amounts in MIT's revenue as well as in cost of sales. In 2011, the aggregate of these line items decreased by RUB 3,948,730 thousand, or 35.9 per cent., from RUB 10,989,577 thousand for the year ended 31 December 2010 to RUB 7,040,847 thousand for the year ended 31 December 2011. This decrease was primarily due to a change in the terms of MIT's export-oriented transportation contracts, where the infrastructure and locomotive tariffs were no longer paid by MIT.

Empty Run Costs increased by RUB 313,192 thousand, or 31.0 per cent., from RUB 1,009,013 thousand for the year ended 31 December 2010 to RUB 1,322,205 thousand for the year ended 31 December 2011. This increase was primarily due to an 8 per cent. increase in Russian Railways' regulated tariff for the traction of empty railcars, an increase in Average Rolling Stock Operated by 1,394 railcars, or 17.4 per cent., for the year ended 31 December 2011 as compared to the year ended 31 December 2010, and an increase in the Total Empty Run Ratio from 24 per cent. for the year ended 31 December 2010 to 34 per cent. for the year ended 31 December 2011.

Transportation operator services decreased by RUB 479,018 thousand, or 14.5 per cent. from RUB 3,295,619 thousand for the year ended 31 December 2010 to RUB 2,816,601 thousand for the year ended 31 December 2011. This decrease was primarily due to a decrease in the total number of loaded trips for Engaged Fleet, which was driven by a decrease in the use of Engaged Fleet, partially offset by an increase in the average price of operator services due to market conditions.

Rolling stock operating lease rentals increased by RUB 744,493 thousand or 2,090.2 per cent., from RUB 35,619 thousand for the year ended 31 December 2010 to RUB 780,112 thousand for the year ended 31 December 2011. This increase was primarily due to a significant increase in the average number of leased-in railcars over the period, along with an increase in average lease rates per car per day in 2011 as compared to 2010.

Labour costs increased by RUB 35,255 thousand, or 48.8 per cent., from RUB 72,260 thousand for the year ended 31 December 2010 to RUB 107,515 thousand for the year ended 31 December 2011. This increae was primarily due to staff and management incentive payments related to 2010 and 2011 accrued and paid in 2011, and increase in the average level of salaries and an increase in unified social tax in Russia.

General and administrative expenses

The following table is a breakdown of selling, general and administrative expenses for the years ended 31 December 2011 and 2010.

	Years ended 31 December	
	2011	**2010**
	(RUB in thousands)	
Management fees	126,000	98,500
Office operating lease rental	70,706	30,067
Labour costs	65,179	39,625
Bank charges	18,410	3,243
Materials and fuel	5,415	3,579
Provision for impairment of accounts receivable	3,626	—
Depreciation	2,629	4,899
Business trips	2,505	2,064
Other	32,594	17,536
Total	**327,064**	**199,513**

General and administrative expenses increased by RUB 127,551 thousand, or 63.9 per cent., from RUB 199,513 thousand for the year ended 31 December 2010 to RUB 327,064 thousand for the year ended 31 December 2011. This increase was primarily due to increases in management fees, office operating lease rental expenses, labour costs and bank charges.

Management fees increased by RUB 27,500 thousand, or 27.9 per cent., from RUB 98,500 thousand for the year ended 31 December 2010 to RUB 126,000 thousand for the year ended 31 December 2011. This increase was primarily due to special arrangements between MIT and its managing company, which is a part of Metalloinvest. Following the MIT Acquisition, this management fee will no longer be incurred. However, similar services relating to the management of MIT, to the extent incurred, will likely be reflected in the Group's employee benefits expense line item, which may increase as a result.

Office operating lease rental expenses increased by RUB 40,639 thousand, or 135.2 per cent., from RUB 30,067 thousand for the year ended 31 December 2010 to RUB 70,706 thousand for the year ended 31 December 2011. This increase was primarily due to MIT's leasing new office space in Moscow in the beginning of 2011. A portion of this office space was sublet, which contributed to the increase in other revenue as discussed above.

Labour costs increased by RUB 25,554 thousand, or 64.5 per cent., from RUB 39,625 thousand for the year ended 31 December 2010 to RUB 65,179 thousand for the year ended 31 December 2011. This increase was primarily due to staff and management incentive payments related to 2010 and 2011 accrued in 2011, an increase in the average level of salaries and an increase in social insurance costs due to changes in the legislation and an increase in the effective tax rate.

Bank charges increased by RUB 15,167 thousand, or 467.7 per cent., from RUB 3,243 thousand for the year ended 31 December 2010 to RUB 18,410 thousand for the year ended 31 December 2011. This increase was primarily due to bank charges incurred in 2011 in relation to the early settlement of a credit facility.

Other operating expenses

Other operating expenses increased by RUB 233,202 thousand, or 4,467.5 per cent., from RUB 5,220 thousand for the year ended 31 December 2010 to RUB 238,422 thousand for the year ended 31 December 2011. This increase was primarily due to penalties incurred by MIT in 2011, which amounted to RUB 242,091 thousand, as a result of railcars provided by other operators not being loaded on time and staying on stations waiting for the loading, and not providing other operators all the necessary documents to evidence that no VAT should be applied.

Operating profit

MIT's operating profit increased by RUB 361,119 thousand, or 11.2 per cent., from RUB 3,233,711 thousand for the year ended 31 December 2010 to RUB 3,594,830 thousand for the year ended 31 December 2011 as a result of the factors discussed above.

Related party arrangements

MIT is required to report all related party transactions, as defined in IAS 24 "Related Party Disclosures," in accordance with IFRS. During 2011 and 2010, as a part of Metalloinvest, MIT entered into a number of transactions with parties under common control with, or otherwise related to, it at that time and in the ordinary course of business. The Group believes that the freight rail transportation services provided by MIT to the relevant Metalloinvest entities in the period under review were on arm's length terms in all material respects. These related party transactions are described in the MIT Financial Statements.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

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

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

The business address for the Directors is Omirou 20, Agios Nikolaos, P.C. 3095, Limassol, Cyprus.

Mr. Alexander Eliseev—Chairman of the Board of Directors

Mr. Eliseev co-founded the Group with Mr. Maltsev in 2004. He has been actively involved in the reform of the Russian rail market as it has moved to introduce market-based principles. Mr. Eliseev was appointed as the Chairman non-executive member of the Board of Directors in March 2008. Mr. Eliseev has also been chairman of the board of directors of New Forwarding Company since 2003 and chairman of the board of directors of Sevtekhnotrans since 2007. Mr. Eliseev has more than 15 years of management experience, with most of this experience in the railway industry. He graduated from the Second Moscow Medical Institute, Russian State Medical University where he studied Biophysics. Prior to joining the Group, Mr. Eliseev worked for OOO MMK-Trans as Chief Accountant from 1999 until 2000, then as Financial Director from 2000 until 2005 and finally as Deputy General Director from 2005 until 2007. In addition, Mr. Eliseev served as a General Director at ZAO KPlus from December 1993 until February 1997, as a Commercial Director at OOO PromSnab from March 1997 until October 1997 and as a General Director at ZAO Evraztrans from November 1997 until February 1999. He was a member of the board of directors at OOO Neokont from August 2004 until February 2006 and a member of the board of directors at OOO Firma Transgarant from October 2004 until September 2006. He also has been the Chairman of the board of directors of ZAO Ural Wagon Repair Company since 2006, a Financial Director of OOO Logistika i Transport since 2007, and a member of the Board of Directors of OAO Financial Company Brisant since 1999 until February 2010.

Mr. Eliseev beneficially owns a 49.0 per cent. interest in EIL, which owns 9.9 per cent. of the Ordinary Shares in the Company prior to the Offering. A shareholders' agreement provides that certain decisions of EIL require unanimous approval of EIL's board of directors or shareholders. See also *"Principal Shareholders and the Selling Shareholder"*. Mr. Eliseev also owns an additional 2.28 per cent. of the Ordinary Shares (including in the form of GDRs) through Litten. Litten has agreed to cast its votes in respect of shares held by it in the same manner as EIL.

Mr. Michael Zampelas—Member of the Board of Directors

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

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

In addition, Mr. Zampelas held the following positions in the periods indicated:

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

Since March 2008 he has held the Position of Vice-President of the Board of Eurobank EFG Cyprus Limited and the position of the Chairman of the Audit Committee of Eurobank EFG Cyprus Limited.

Dr. Johann Franz Durrer—Member of the Board of Directors

Dr. Durrer was appointed as an independent non-executive member of the Board of Directors and as Chairman of its remuneration and nomination committees in March 2008. Dr. Durrer has more than 30 years of management experience. He graduated from the University of Zürich with a doctorate in economics and is a member of the Swiss Fiduciary Association. He started his career in 1957 with Union Bank of Switzerland in Geneva and became a financial analyst. In 1970 Dr. Durrer founded his own company, Fidura Treuhand AG, which provides bookkeeping, auditing, and financial services to real estate companies. Dr. Durrer is the former president of the oil company Montafan AG, and a former board member of the transport company IMT-Dienst AG. He is currently an executive board member of several privately held companies.

Dr. Durrer beneficially owns 0.06 per cent. of the Ordinary Shares in the Company in the form of GDRs.

Ms. Elia Nicolaou—Member of the Board of Directors

Ms. Nicolaou was appointed as a non-executive director member of the Board of Directors in March 2008, and has been a member of the Audit Committee since March 2008. She also acts as the company secretary. Ms. Nicolaou is currently the Managing Director of Amicorp (Cyprus) Ltd. Ms. Nicolaou has more than nine years of legal, corporate administration and management experience in a number of companies. She graduated from the University of Nottingham, UK, where she was awarded a bachelors of laws, before gaining a masters of laws in commercial and corporate law from University College, London, UK, and an MBA from the Cyprus International Institute of Management. Prior to joining Amicorp (Cyprus) Ltd, Ms. Nicolaou worked as the head of the corporate legal department at Polakis Sarris LLC from July 2003 until March 2007 and as a lawyer at C. Patsalides LLC from 2002 until 2003. She also sits on various boards of the Cyprus Chamber of Commerce.

Mr. Konstantin Shirokov—Member of the Board of Directors

Mr. Shirokov has served as an executive member of the Board of Directors and as the Company's internal auditor since March 2008. He is currently Financial Manager for TIHL and a member of the internal audit committee for the TIHL group of companies, which positions he has held since 2005 and 2007, respectively. Mr. Shirokov is a non-executive member of the board of directors of Global Ports Investments Plc and a member of its audit committee. Mr. Shirokov has more than eight years of management experience. He graduated from the Finance Academy of the Russian Federation where he studied International Economic Relations. Mr. Shirokov has also completed a course in Business Management at the business school of Oxford Brookes University, UK. Prior to joining TIHL, Mr. Shirokov worked in various management positions including as a Deputy Financial Director at OAO Mechel and as an economist at Glencore International AG's Moscow office.

Mr. Mikhail Loganov—Member of the Board of Directors

Mr. Loganov has served as an executive member of the Board of Directors and as a member of the nomination committee since March 2008. He is currently Finance Manager for Leverrett Holding Ltd, a position he has held since May 2006. Mr. Loganov also holds the position of non-executive member of the board of directors of Global Ports Investments PLC, Cyprus, and is a member of its audit and risk committee. Mr. Loganov joined the Group in June 2004 as a finance manager at Sevtekhnotrans. Mr. Loganov has more than nine years of financial experience. He graduated from the University of

Brighton, East Sussex and has a BA honours degree in Business Studies with Finance. Prior to joining the Group, Mr. Loganov worked as a financial analyst for American Express (Europe) Ltd in the UK from June 2001 until May 2004.

Mr. Sergey Maltsev—Member of the Board of Directors

Mr. Maltsev co-founded the Group with Mr. Eliseev in 2004 and has been one of the key individuals in the development of the private freight rail market in Russia. Mr. Maltsev has served as an executive member of the Board of Directors since March 2008 and has been the Chief Executive Officer of the Group since March 2008. Mr. Maltsev has more than 25 years of management experience, with most of this experience in the railway armed forces and railway industry and has been recognised for his contribution to the development of the Russian rail industry by the Russian Transport Ministry, which awarded him the "Honoured Railwayman of Russia" Award in 2006, the Commemorative pin "200 Years of Waterborne and Land Transport Management" in 2009 in recognition for his role in the reform of the Russian rail market and in the improvement of railway operation management processes and in April 2012, the "Honored Transportman of the Commonwealth of Independent States" Award. He graduated from the Leningrad Frunze Higher school of railway forces and military communications where he obtained a degree as an engineer on the operation of railways. Prior to election to the Board of the Company in 2008, Mr. Maltsev served in the Armed Forces of the Russian Federation (Soviet Union), worked for ZAO Petra from 1993 until 1997 as Head of the Transportations Department, then in the same position at OOO PromSnab from 1997 until 1999. In addition, Mr. Maltsev served as a Counsellor to the General Director of OOO MMK-trans, from 1999 until 2007.

Mr. Maltsev currently serves as Chairman of Presidium of the non-profit partnership Council of the Market of Railway Rolling Stock Operators Services.

Mr. Maltsev beneficially owns a 51.0 per cent. interest in EIL, which owns 9.9 per cent. of the Ordinary Shares (including in the form of GDRs) in the Company prior to the Offering. A shareholders' agreement provides that certain decisions of EIL require unanimous approval of EIL's board of directors or shareholders. See also *"Principal Shareholders and the Selling Shareholder"*.

Mr. Alexander Eliseev and Mr. Sergey Maltsev have a beneficial interest in OOO MMK-Trans a company engaged in freight rail transportation. The Group has in the past engaged, and is currently engaging in, transactions with OOO MMK-Trans, including transactions in the ordinary course of business (see also *"Material Contracts and Related Party Transactions—Related Party Transactions—Sale of goods and services"* and *"Material Contracts and Related Party Transactions—Related Party Transactions—Purchase of goods and services"*). As a result of the different interests of the Group and OOO MMK-Trans potential conflicts of interest could arise.

Other than as described above in relation to OOO MMK-Trans, there are no current or potential conflicts between the private interests and duties of the members of the Board of Directors and the duties of those persons to the Group. In the previous five years, no member of the Board of Directors (a) has had any convictions in relation to fraudulent offences; (b) served as a director, partner, founder or senior manager of any organisation that had any bankruptcies, receiverships or liquidations; (c) was subject to any official public incrimination and/or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Senior Management

As at the date of this Offering Memorandum, the senior management, by function, of the Group is set out below.

Name	Year of birth	Current position	Since
Mr. Sergey Maltsev	1963	Chief Executive Officer	2008
Mr. Valery Shpakov	1956	First Deputy Chief Executive Officer, Chief Executive Officer of New Forwarding Company	2007
Mr. Vladimir Prokofiev	1949	Deputy Chief Executive Officer, Chief Executive Officer of BTS	1999
Ms Irina Alexandrova	1973	Deputy Chief Executive Officer, Chief Executive Officer of Sevtekhnotrans	2006
Mr. Vyacheslav Stanislavskiy	1963	Deputy Chief Executive Officer	2010
Mr. Alexander Shenets	1978	Chief Financial Officer	2003
Mr. Roman Goncharov	1970	Head of Treasury	2007

The business address for the senior management is Omirou 20, Agios Nikolaos, P.C. 3095, Limassol, Cyprus. The biographies of the senior management of the Group, as at the date of this Offering Memorandum, are set out below to the extent that they are not members of the Board of Directors of the Company and set out above.

Mr. Valery Shpakov—First Deputy Chief Executive Officer, Chief Executive Officer of New Forwarding Company

Mr. Shpakov joined New Forwarding Company in 2003 and has served as its CEO since 2007. Mr. Shpakov has more than 30 years of industry experience. He graduated from the Leningrad Frunze Higher school of railway forces and military communications where he obtained a degree as an engineer on the operation of railways. Prior to joining the Group, Mr. Shpakov worked at OOO MMK Trans between 2000 and 2002 as head of Internal Transportation Department and between 2002 and 2003 as head of Railway Wagons Department. Prior to joining the Group he also worked at OOO Transgarant NPK in 2003 as General Director. Between 2002 and 2003, prior to his appointment, he worked for New Forwarding Company as Executive Director between 2003 and 2005 and as First Deputy General Director between 2005 and 2007.

In 2006, the Russian Transport Ministry awarded Mr. Shpakov the "Honoured Railwayman of Russia" Award in recognition of his important contribution to the development of the Russian rail transport sector. The Transport Ministry has also awarded Mr. Shpakov with the Commemorative pin "200 Years of Waterborne and Land Transport Management", in recognition for his role in the reform of the Russian rail market and in the improvement of railway operation management processes and in April 2012, the "Honored Transportman of the Commonwealth of Independent States" Award.

Mr. Vladimir Prokofiev—Deputy Chief Executive Officer, Chief Executive Officer of BTS

Mr. Prokofiev has served as CEO of BTS since its establishment in 1999 and as a member of the board of directors of the New Forwarding Company and Sevtekhnotrans since 2010. With more than 42 years experience in the rail sector he is one of the industry's most experienced managers. He began his career as a railway worker subsequently advancing to railway station manager and then chief rail engineer. In 1991, he joined the private sector and in 1997 he was one of the founders and CEO of the pioneering private oil freight rail operator in Russia. He is a recipient of the "Honoured Railwayman of Russia" Award in recognition for his contribution to the rail industry. Mr. Prokofiev has been actively involved in the development and regulation of the rail market for many years. In 2001, he was behind the establishment of the Association of Carriers and Rolling Stock Operators of Russia, which now has over 20 members. He holds a degree in rail engineering.

Ms Irina Alexandrova—Deputy Chief Executive Officer, Chief Executive Officer of Sevtekhnotrans

Ms Alexandrova, the Group's Deputy Chief Executive Officer, Chief Executive Officer of Sevtekhnotrans, has served as the Chief Executive Officer of Sevtekhnotrans since September 2006. Ms. Alexandrova has more than ten years' of management experience in the railroad industry. She studied at the Sholokhov Moscow State Open Pedagogic University and has a degree in mathematics, informatics and computer engineering. In 2002 and 2003 Ms. Alexandrova completed a course on "Logistics of industrial enterprises and railway transport in Germany" and a course on "Studies of German freight forwarding experience" in the German Management Academy of Lower Saxony. Prior to becoming Chief Executive Officer of Sevtekhnotrans, Ms Alexandrova was deputy head of the railroad department of ZAO Severstaltrans from June 1996 until September 2006 and prior to that she worked as a leading specialist in the railroad department of TOO Rosinturtrans.

Mr. Vyacheslav Stanislavskiy—Deputy Chief Executive Officer

Mr. Stanislavskiy, the Group's Deputy Chief Executive Officer, has served as Deputy Chief Executive Officer of New Forwarding Company since 2010 and the Chief Executive Officer of MIT since May 2012. Mr. Stanislavskiy previously held positions as vice-president at transportation company "Novotrans" from June 2005 until June 2010 and as deputy chief executive officer, in charge of the transportation segment, at LLC "Transgroup A.S." from 2002 until 2005. Mr. Stanislavskiy graduated from the Railway Armed Forces Academy in Leningrad as an officer with higher military education, engineer of railway operations. In 1999, he also graduated from the State Technical University in Irkutsk with a degree in business management. For his efforts in the field of railway transportation, Mr. Stanislavskiy, has been awarded with commemorative lapel badge "in honour of 200 years of water and railway management" by Transport Ministry in September 2009.

Mr. Alexander Shenets—Chief Financial Officer

Mr. Shenets is the Chief Financial Officer of the Group and has served in this capacity since the Group's establishment. He acted as head of the finance department at Sevtekhnotrans between June 2003 and October 2003. Mr. Shenets has more than nine years' experience in finance, with more than eight of these years in the railway industry. Mr. Shenets graduated from the faculty of Computational Mathematics and Cybernetics, Moscow State University and has a degree in Applied Mathematics. He also has a Master of Business Administration degree from the Graduate School of Business Administration, Moscow State University and a Candidate of Philosophy degree obtained at Bauman Moscow State Technical University.

Mr. Roman Goncharov—Head of Treasury

Mr. Goncharov, Head of Treasury of the Group, has served as Chief Financial Officer of New Forwarding Company since September 2007. Mr. Goncharov has more than thirteen years of management experience in finance. He studied at the Plekhanov Academy where he obtained a diploma with honours, and at the Russian Economic Academy where he obtained a diploma in finance and credit. Mr. Goncharov also has an MBA from the Moscow International School of Business. Prior to joining the Group, Mr. Goncharov worked as Finance Director of OOO Firma Transgarant from December 2005 until June 2007, and prior to this he worked for ZAO Severstaltrans as Head of the Finance Department from March 1998 until November 2005.

Other than as described above under *"—Directors"* in relation to Mr. Sergey Maltsev and OOO MMK-Trans, there are no current or potential conflicts between the private interests and duties of the members of senior management of the Group and the duties of those persons to the Group.

In the previous five years, no member of the senior management of the Group (a) has had any convictions in relation to fraudulent offences; (b) served as a director, partner, founder or senior manager of any organisation that had any bankruptcies, receiverships or liquidations; (c) was subject to any official public incrimination and/or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Compensation of Directors and Key Managers

The aggregate amount of compensation paid by the Group to its key managers, including members of the Board of Directors, for their services to the Group for the years ended 31 December 2011 (14 persons), 2010 (21 persons) and 2009 (21 persons) was USD 21,065 thousand, USD 17,952 thousand and USD 9,282 thousand, respectively, including USD 2,388 thousand, USD 1,396 thousand and USD 731 thousand, respectively, remuneration for members of the Board of Directors. There are no amounts set aside or accrued by the Company or its subsidiaries to provide pension, retirement or similar benefits to such persons.

No director or senior manager is a party to any service contract with the Group where such contract provides for benefits upon termination of employment.

Corporate Governance

As the Ordinary Shares are not listed on the Cyprus stock exchange, the Group, despite the incorporation in Cyprus of the Company, is not required to, and consequently does not, comply with the corporate governance regime relating to companies listed on the Cyprus stock exchange. The Company has currently appointed two independent non-executive directors and has established audit, nomination and remuneration committees of the Board of Directors.

Board of Directors

The Company has established three committees: an audit committee, a nomination committee and a remuneration committee. The members of these committees are appointed principally from among the independent directors. A brief description of the terms of reference of the Committees is set out below.

Audit committee

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

Nomination committee

The nomination committee comprises at least three directors, the majority of whom are independent directors, and meets at least once each year with two meetings scheduled to take place in 2012. Currently the nomination committee is chaired by Mr. Durrer and the other members are Messrs. Zampelas and Loganov. The committee's role is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Company's stage of development and makes recommendations to the Company's Board of Directors as to any changes. The committee also considers future appointments in respect of the composition of the Board of Directors as well as making recommendations regarding the membership of the audit and remuneration committees.

Remuneration committee

The remuneration committee comprises at least three directors, the majority of whom are independent directors, and meets at least once each year with two meetings scheduled to take place in 2012. Currently the remuneration committee is chaired by Mr. Durrer and Messrs. Zampelas and Eliseev are members. The remuneration committee is responsible for determining and reviewing, among other matters, the Company's remuneration policies. The remuneration of independent directors is a matter for the chairman of the Board of Directors and the executive directors. No director or manager may be involved in any decisions as to his/her own remuneration.

Internal auditor

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

For details of the procedures for appointment and removal of directors of the Company, see *"Description of Share Capital and Applicable Cypriot Law—Articles of Association—Directors"*.

DESCRIPTION OF THE COMPANY

The Company was incorporated as a private limited liability company limited by shares and was registered in Cyprus on 20 May 2004 under the name Globaltrans Investment Limited, pursuant to the certificate of incorporation issued by the Office of the Registrar of Companies in Cyprus, and has conducted business since that date. The principal legislation under which the Company operates, and under which the Ordinary Shares are created, is the Companies Law, Cap. 113 of Cyprus (as amended) (the ***Cyprus Companies Law***). The shareholders of the Company resolved on 19 March 2008 that Globaltrans Investment Limited be converted into a public company and that its name be changed to Globaltrans Investment PLC. The formal registration of the change of name with the Registrar of Companies in Cyprus occurred on 15 April 2008. In May 2008, upon admission by the FSA in its capacity as competent authority under the Financial Services and Markets Act (***FSMA***) to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 116,959,064 global depositary receipts representing Ordinary Shares to be issued from time to time against the deposit of Ordinary Shares with the depositary, the Company conducted the IPO, an offering of GDRs on the London Stock Exchange. In connection with such offering, the Company sold 16,959,064 GDRs, and TIHL and EIL together sold 18,543,791 GDRs, including GDRs sold pursuant to an over-allotment option granted by EIL in May 2008 in the course of the IPO. In December 2009, the Company sold 11,764,705 GDRs and TIHL sold 8,782,352 GDRs, including GDRs sold pursuant to an over-allotment option granted by TIHL in December 2009. In March 2010, the Company listed up to 41,176,469 GDRs on the London Stock Exchange to be issued against the deposit of Ordinary Shares from time to time. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR". The Company's registered number is 148623, and its registered office is at Omirou 20, Agios Nicolaos, CY-3095, Limassol, Cyprus. The telephone number of the Company's registered office is +357 255 83 125. The Company's principal place of business is located in Cyprus at City House, 3rd floor, Office 308, 6 Karaiskakis Street Limassol CY-3032, Cyprus and the telephone number at the principal place of business is +357 255 03 153.

PRINCIPAL SHAREHOLDERS AND THE SELLING SHAREHOLDER

The following table sets forth the beneficial ownership of the Ordinary Shares of the Company by its principal shareholders immediately prior to the Offering, immediately following the Offering and immediately following the exercise of the Over-Allotment Option, assuming that were to occur.

	Immediately prior to the Offering		**Immediately following the Offering**		**Immediately following exercise of the Over-Allotment Option**	
Shareholder	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**	**Number of Ordinary Shares**	**Percentage**
Transportation Investments Holding Limited(1)(2)	79,225,903	50.1%	74,998,703	42.0%	71,968,403	40.3%
Envesta Investments Ltd.(3)	15,728,116	9.9%	15,728,116	8.8%	15,728,116	8.8%
Treasury shares	3,637,117	2.3%	—	0.0%	—	0.0%
Other entities controlled by Directors of the Company(4)	3,712,132	2.3%	3,772,738	2.1%	3,772,738	2.1%

(1) Transportation Investments Holding Limited (***TIHL***) is a company organised and existing under the laws of Cyprus with its registered office and principal place of business at 20 Omirou, Agios Nikolaos, P.C. 3095, Limassol, Cyprus. TIHL is ultimately controlled by a company the beneficial owners of which are Nikita Mishin, Konstantin Nikolaev and Andrey Filatov. Such persons, by virtue of their holdings in TIHL, also have indirect interests in a number of other companies forming the largest privately-held transportation group in Russia and known by the brand name of NTrans.

(2) Includes 5 Ordinary Shares held by companies affiliated with TIHL and wholly owned by the beneficial owners of TIHL.

(3) Envesta Investments Ltd. (***EIL***) is a company organised and existing under the laws of Cyprus with its registered office and principal place of business at 20 Omirou, Agios Nikolaos, P.C. 3095, Limassol, Cyprus. Sergey Maltsev beneficially owns 51 per cent. and Alexander Eliseev beneficially owns 49 per cent. of EIL. A shareholders' agreement provides that certain decisions of EIL require unanimous approval of EIL's board of directors or shareholders. Of the Ordinary Shares beneficially owned by EIL, 1,807,086 are held in the form of GDRs.

(4) See "*Directors and Senior Management*". This includes 3,612,132 Ordinary Shares (including in the form of GDRs) held by Litten, a company beneficially owned by Mr. Eliseev. Litten has agreed to cast its votes in respect of shares held by it in the same manner as EIL and has given TIHL a right of first refusal to acquire shares otherwise to be sold to a third party, on similar terms. This also includes 100,000 GDRs beneficially owned by Dr. Durrer and an additional 60,606 GDRs purchased by him in the Offering.

Immediately following the Offering and the exercise of the Over-Allotment Option in full, the free float is expected to be 48.7 per cent. of the Ordinary Shares.

TIHL and EIL are parties to a shareholders agreement on the terms described below, which governs the relations between the parties in relation to the governance of the Company and its subsidiaries, limits the rights of either party to transfer Ordinary Shares to any person other than to an affiliate or the other party (other than in offerings to the public made on the same terms by both shareholders) and prohibits any party from acquiring Ordinary Shares, including GDRs, from the public unless such acquisition is pro rata to such party's existing shareholdings.

The Shareholders Agreement provides that the business of the Company will be conducted on the basis of sound commercial profit making principles with the aim of generating the maximum maintainable profits available for distribution. With respect to the Board of the Company, it provides for the nomination and appointment to the Board of three directors by TIHL and two directors by EIL, as well as the appointment of two independent directors. With respect to the board of the Russian subsidiaries, it provides for the nomination and appointment to such boards of five directors by TIHL and two directors by EIL. The general director of the Russian subsidiaries is appointed by EIL and the chief financial officer by TIHL. Certain matters with respect to subsidiaries of the Company, such as the amending of constitutional documents, reorganisations, liquidations, acquisitions and disposals of shares, establishing subsidiaries and electing and terminating the chief executive officer and any director require the approval of both TIHL and EIL. It is also envisaged that each of them will not vote to approve, without the approval of the other, any amendments to the Company's constitutional documents, any proposal to wind up or liquidate the Company or any proposal to seek relief for the Company under any bankruptcy, insolvency or similar law.

The Shareholders Agreement permits the sale of all of a party's interest to a third party (or, if less than all, an amount not less than at least 30 per cent. of all the issued Ordinary Shares), subject to the rights of first refusal and tag along rights as well as the third party agreeing to be bound by the Shareholders Agreement. If a party proposes to sell to a third party, then each other party to the agreement has a right of first refusal to acquire the selling party's interests at the third party price. In addition, such other party, if it does not exercise its right of first refusal, has tag along rights to require, as a condition to the sale to the third party, that such third party also acquire its interest on the same terms. The agreement also includes a "shoot out" provision under which, if one party offers to buy out the other party's interest at a specified price, such other party has the option of either accepting that offer or acquiring the offering party's interest at the same price as provided in the initial offering party's offer.

MATERIAL CONTRACTS AND RELATED PARTY TRANSACTIONS

Material Contracts

The Group believes that it has no material contracts (not being contracts entered into in the ordinary course of business) other than the Underwriting Agreement referred to in "*Plan of Distribution*" and the contracts described below.

MIT Acquisition Agreement

On 26 April 2012, New Forwarding Company entered into an agreement with Metalloinvest Transport (Cyprus) Limited (the ***Vendor***) in relation to the acquisition of 100 per cent. of the participatory interests in MIT (the ***MIT Acquisition Agreement***). The MIT Acquisition Agreement contemplates the acquisition of 99.44 per cent. of the shares in MIT from the Vendor and of the remaining 0.56 per cent. from JSC "HC "Metalloinvest" (***HC Metalloinvest***). Title to the participatory interests in MIT was transferred to New Forwarding Company on 15 May 2012 (the ***Completion***). On the date of the Completion, New Forwarding Company was required to pay a lump sum of USD 540 million to the Vendor and HC Metalloinvest (in the relevant proportions) as the consideration under the MIT Acquisition Agreement (the ***Base Consideration***). The MIT Acquisition Agreement requires that, within 60 calendar days following 31 May 2012, the Vendor determine the adjusted consideration based on a number of factors, including MIT's net debt, any deviation of working capital from normalised levels and material capital commitments (in each case, calculated pursuant to the MIT Acquisition Agreement) during this period (the ***Adjusted Consideration***). If the Adjusted Consideration exceeds the Base Consideration, New Forwarding Company will be required to pay the difference to the Vendor (and, if requested by it, to HC Metalloinvest). Similarly, if the Adjusted Consideration is less than the Base Consideration, the Vendor will (and, if necessary, will procure that HC Metalloinvest will), pay the difference to New Forwarding Company. The MIT Acquisition Agreement also provides for an adjustment to the Base Consideration to the extent that more than 10 units of the agreed amount of rolling stock have been disposed of and not replaced. The Company has guaranteed certain of New Forwarding Company's obligations under the MIT Acquisition Agreement.

Pursuant to the MIT Acquisition Agreement, the Vendor has agreed that no member of its corporate group will, for a period of 18 months following the date of the MIT Acquisition Agreement, directly or indirectly solicit, induce or seek to induce away from MIT any employees with a view to engage them in any business. If any person ceases to be an employee of MIT at his or her own discretion (but not at the discretion of MIT or upon the agreement between such person and MIT), any member of the Vendor's corporate group may employ him/her at any time upon the expiry of eighteen months of such person ceasing to be an employee of MIT in the case of a person who has been employed and based in Moscow, or six months of such person ceasing to be an employee of MIT in the case of a person who has been employed and based in other regions of Russia (or in each case, such shorter period if agreed between New Forwarding Company and the Vendor). It is agreed, however, that certain of MIT's employees, including heads of certain departments, chief traffic controller and a number of lead specialists, are exempted from this restriction and may be engaged by any member of the Vendor's corporate group within three months following Completion. Those exempted employees who have not been engaged during such three month period will become subject to the 18-month limitation period described above.

MIT Freight Service Contracts

In connection with the MIT Acquisition, on 26 April 2012, MIT signed several new freight rail service contracts (the ***MIT Individual Freight Service Contracts***) with Metalloinvest's main production entities (collectively, the ***Metalloinvest Customers***), including JSC "Lebedinskiy GOK", JSC "Mikhailovsky GOK", JSC "OEMK", JSC "Ural Steel" and Metalloinvest Trading AG (the ***Guarantor***). Pursuant to each MIT Individual Freight Service Contract, MIT has agreed to provide domestic and international railway transportation services, and certain ancillary services, including traffic management, to Metalloinvest Customers. Each MIT Individual Freight Service Contract provides for a 100 per cent. pre-payment of all fees by Metalloinvest Customers and is valid until 31 May 2015, and includes the pricing terms for the first year.

Also in connection with the MIT Acquisition, New Forwarding Company entered into a deed of guarantee and indemnity with, among others, the Guarantor (the ***Purchaser Guarantee***), and the Company entered into a deed of guarantee and indemnity with the Vendor (the ***Vendor Guarantee***). Pursuant to Purchaser Guarantee, the Guarantor has agreed, among other matters, to procure that, starting from 1 June 2012, each Metalloinvest Customer (including the Guarantor): (a) during the year ending 31 May 2013, dispatches 100 per cent. of its cargoes, and (b) during the second and the third year following the Completion, dispatches at least 60 per cent. of its cargoes, under the MIT Individual Freight Service Contracts. Pursuant to the Vendor Guarantee, the Company has agreed, among other matters, to procure that MIT provides a sufficient number of railcars to comply with the transportation volumes of each Metalloinvest Customer agreed in the Deed of Guarantee, subject in the second and third years to agreement upon the pricing terms as described below.

Both deeds provide that, upon the expiration of the first and the second year following Completion, the Vendor will hold a tender to identify the railway operator offering the best pricing terms, and notify MIT accordingly. The tender will be held among railway operators with a fleet of at least 8,000 gondola (open top) cars. MIT and the Metalloinvest Customers will only be obliged to comply with the agreed transportation volumes under the MIT Individual Freight Service Contracts during the second and the third year following Completion if MIT is willing to accept pricing terms that are similar to those of the winning bidder or are more favourable for the Metalloinvest Customers.

MIT Acquisition facility

On 27 April 2012, New Forwarding Company (as borrower) and Sberbank (as lender) entered into a credit facility agreement for a principal amount of up to USD 400 million to finance the MIT Acquisition. Borrowings under the facility agreement bear a floating interest rate of three months LIBOR plus a fixed annual margin. The facility is repayable in 24 equal monthly instalments, with the first payment due on 26 May 2013. The final repayment date under the facility agreement is 27 April 2015. The facility is secured by pledge of 5,692 railcars granted by New Forwarding Company and a suretyship from the Company. In addition, New Forwarding Company is required, within 60 calendar days following completion of the MIT Acquisition, to pledge in favour of Sberbank any equity acquired using proceeds lent under the facility agreement.

Pursuant to the facility agreement New Forwarding Company undertakes to comply with a number of covenants, including: (a) as long as any indebtedness under the facility agreement remains outstanding, to maintain New Forwarding Company's and the Group's Net Debt to EBITDA ratio (in each case, calculated as set out in the facility agreement) at a certain rate; (b) to provide Sberbank with its financial statements prepared in accordance with RAS and IFRS (with the latter in respect of New Forwarding Company and the Group) as well as with a number of other financial, operational and corporate documents; and (c) to notify Sberbank of any changes to its shareholders, statutory form or the composition of the managing bodies within ten business days following the relevant change. The facility agreement also requires that, as long as any indebtedness thereunder remains outstanding, no member of the Group may obtain any new financing (including through loan agreements and debt securities issuances) and/or enter into guarantee and suretyship arrangements without Sberbank's prior consent where as a result of these arrangements, New Forwarding Company's and/or the Group's Net Debt to EBITDA ratio (in each case calculated as set out in the facility agreement) exceeds the levels agreed with Sberbank. The facility was drawn-down in full for the MIT Acquisition.

RELATED PARTY TRANSACTIONS

The Group is required to report all related party transactions, as defined in IAS 24 "Related Party Disclosures", in accordance with EU IFRS. In addition, the Group's Russian subsidiaries are required to comply with applicable Russian law with respect to related party transactions. During the periods covered by the Consolidated Financial Statements and the Interim Condensed Consolidated Financial Information, and to the date of this Offering Memorandum, the Group has entered into a number of transactions with related parties. See Note 30 of the Consolidated Financial Statements as at and for the year ended 31 December 2011, Note 31 of the Consolidated Financial Statements as at and for the year ended 31 December 2010, Note 31 of the Consolidated Financial Statements as at and for the year ended 31 December 2009, and Note 20 of the Interim Condensed Consolidated Financial Statements as at and for the three months ended 31 March 2012. The following selections describe the related party transactions considered to be significant by the Group.

Sale of goods and services

Sales of goods and services to related parties are set out in the table below for the periods indicated.

	For the three months ended 31 March 2012	For the year ended 31 December 2011	2010	2009
	(unaudited)		(audited)	
		(USD in thousands)		
Associate	—	—	3	—
The Parent	—		—	10
Other related parties:				
Entities under control of the Parent	18,905	29,215	23,599	28,845
Entities under significant influence of the Parent	60	13,281	27,618	28,256
Entities under significant influence of members of key management	30,786	113,896	83,201	61,706
	49,751	**156,392**	**134,421**	**118,817**

In the year ended 31 December 2009, sales of services to related parties primarily consisted of rail transportation and ancillary services provided to Intergate AG (***Intergate***), a company under common control with TIHL, OOO MMK-Trans (***MMK-Trans***), a company under significant influence of members of key management of the Group and OOO Transoil (***Transoil***), an associate company of TIHL until November 2011, as well as rolling stock operating leasing services to Transoil. In the year ended 31 December 2010, sales of services to related parties primarily consisted of rail transportation and ancillary services provided to Intergate, MMK-Trans, Transoil and OOO MMK-Transfinans (***MMK-Transfinans***), a company under significant influence of members of key management of the Group, as well as rolling stock operating leasing services to Transoil. In December 2010, MMK-Transfinans ceased to be a related party of the Group.

In the year ended 31 December 2011, sales of services to related parties primarily consisted of rail transportation and ancillary services provided to Intergate and MMK-Trans, as well as rolling stock operating leasing services to Transoil. In November 2011, Transoil ceased to be a related party of the Group.

In the three months ended 31 March 2012, sales of services to related parties primarily consisted of rail transportation and ancillary services provided to Intergate and MMK-Trans.

The Group believes that the services were provided to the related parties described above were on arm's length terms in all material aspects.

Purchase of goods and services

Purchases of goods and services from related parties are set out in the table below for the periods indicated.

	For the three months ended 31 March 2012	For the year ended 31 December		
	2012	2011	2010	2009
	(unaudited)		(audited)	
		(USD in thousands)		
Associate	—	398	324	391
Other related parties:				
Entities under control of the Parent	1,159	4,475	3,484	3,383
Entities under control by parties with significant influence over the Group	266	1,089	1,053	1,007
Entities under significant influence of the Parent	—	457	2,399	466
Entities under significant influence of members of key management	5,668	21,432	25,524	21,916
	7,093	**27,851**	**32,784**	**28,163**

In the year ended 31 December 2009, purchases of goods and services from related parties primarily consisted of rented office space from Elokhovskiy Business Center (***Elokhovskiy***), a company under significant influence of members of key management of the Group, leased rolling stock from MMK-Trans and maintenance and repair works on property plant and equipment by OOO New Wagonrepair Company (***NWC***), a company under significant influence of members of key management of the Group, and ZAO Ural Wagonrepair Company (***UWC***), a company controlled by TIHL and under significant influence of MMK-Trans.

In the year ended 31 December 2010, purchases of goods and services from related parties primarily consisted of rented office space from Elokhovskiy, leased rolling stock from MMK-Trans, leased rolling stock from MMK-Transfinans and maintenance and repair works on property plant and equipment by NWC and UWC.

In the year ended 31 December 2011, purchases of goods and services from related parties primarily consisted of leased rolling stock from MMK-Trans and maintenance and repair works on property plant and equipment by NWC and UWC.

In the three months ended 31 March 2012, purchases of goods and services from related parties primarily consisted of leased rolling stock from MMK-Trans.

The Group believes that the purchases of goods and services involving the related parties described above were on arm's length terms in all material aspects.

Additions and disposals of property plant and equipment

Additions and disposals of property plant and equipment to/from related parties are set out in the table below for the periods indicated.

	For the three months ended 31 March 2012	For the year ended 31 December 2011	2010	2009
	(unaudited)		(audited)	
		(USD in thousands)		
Additions:				
Other related parties:				
Entities under control of the Parent	289	1,737	882	373
Entities under significant influence of members of key management	168	216	415	319
	457	**1,953**	**1,297**	**692**
Disposals:				
Other related parties: entities under significant influence of members of key management	—	—	8	17

In the periods shown above, acquisitions and disposals of property plant and equipment primarily related to purchases of spare parts and other property plant and equipment from UWC and NWC. The Group believes that the purchase was conducted on arm's length terms in all material respects.

Directors and key management compensation

Key management salaries and other short term employee benefits for the Group are set out in the table below for the periods indicated.

	For the three months ended 31 March 2012	For the year ended 31 December 2011	2010	2009
	(unaudited)		(audited)	
		(USD in thousands)		
Key management salaries and other short term employee benefits	1,333(1)	21,065(2)	17,952(3)	9,282(4)

(1) Includes directors' remuneration of USD 445 thousand.

(2) Includes directors' remuneration of USD 2,388 thousand.

(3) Includes directors' remuneration of USD 1,396 thousand.

(4) Includes directors' remuneration of USD 731 thousand.

Other transactions with related parties

In January 2012, the Company, in accordance with a decision of the extraordinary general meeting of shareholders on 20 December 2011, completed the purchase of 3,637,117 of its own ordinary shares from EIL at a price of USD 11.87 per share for a total consideration of USD 43,172,579.

In December 2011, the Company acquired an additional stake of 4.25 per cent. of shares in Spacecom, a subsidiary of the Company, from TIHL for a total consideration of USD 7,200 thousand bringing its shareholding in Spacecom to 65.25 per cent. The carrying amount of the non-controlling interest acquired on the date of acquisition was USD 5,073 thousand. The Group de-recognised non-controlling interests of USD 5,073 thousand and recorded a decrease in equity attributable to owners of the Company of USD 2,127 thousand.

In September 2011, the Company received EUR 4,455 thousand (USD6,345 thousand) from TIHL as compensation of 61 per cent. of losses of Spacecom suffered as a result of a legal claim which were not previously recognised in the Consolidated Financial Statements for the year ended 31 December 2011.

In November 2009 the Company entered into a contribution and subscription agreement with TIHL. The contribution and subscription agreement provided for the transfer to the Company by TIHL of an effective 55.56 per cent. share in Ingulana Holdings Limited, a Cypriot holding company, owning an effective 90 per cent. economic interest and a majority controlling interest in BTS in exchange for 29,411,764 new ordinary shares issued by the Company with a total value of USD 250,000 thousand.

In September 2009, the Company concluded an additional agreement with TIHL whereby the schedule of payments of consideration for the purchase from TIHL of the Group's share in Spacecom and Spacecom Trans (formerly AS Intopex Trans), originally entered into in 2008 was amended as the Group was able to partially re-finance this interest-bearing liability on more favourable terms. Pursuant to the amended payment schedule, in September 2009 the Company settled USD 25,000 thousand which was due in 2010 plus interest accrued on that amount and a further payment of USD 7,000 thousand plus interest accrued on that amount was made in October 2009. According to the amended schedule, the remaining balance of USD 7,000 thousand plus interest was payable by 1 May 2010. This early repayment did not result in a significant gain or loss for the Company except for the saving on the future interest that would have been accrued on such liability. In accordance with the share purchase agreements regarding the purchase of shares in Spacecom and Spacecom Trans (formerly AS Intopex Trans) and amendments thereto, in April 2010, the Company settled in full its liability to TIHL including accrued interest.

In February 2009 the Company entered into additional agreements to the share purchase agreements regarding the purchase of shares in Spacecom and Spacecom Trans with TIHL. Pursuant to those additional agreements the Company received the right to settle instalments ahead of schedule. These early repayments resulted in a gain of USD 216 thousand for the Company.

Loans from related parties

Loans from related parties are set out in the table below for the periods indicated.

	For the three months ended 31 March 2012	For the year ended 31 December 2011	2010	2009
	(unaudited)		(audited)	
			(USD in thousands)	
The Parent				
Beginning of year	—	—	—	18,379
Loans advanced during the year	—	—	—	30,000
Loans repaid during the year	—	—	—	(46,265)
Interest charged	—	—	—	638
Interest repaid	—	—	—	(3,376)
Foreign exchange gain	—	—	—	624
End of year	**—**	**—**	**—**	**—**

The balance of the loan from TIHL at the beginning of 2009 carried an average interest of 10.43 per cent. per annum and was repayable in June 2012. All of the loans were settled in 2009 ahead of their stated maturity schedule. No penalties or premiums were incurred as a result of such early settlement (except for the benefit of interest not accrued). The loan advanced in 2009 was for USD 30,000 thousand and carried an interest of 1 per cent. per annum and was provided for up to 10 days.

Guarantees by related parties

	For the year ended 31 December		
	2011	2010	2009
		(audited) (USD in thousands)	
Borrowings guaranteed by:			
The Parent and entities with significant influence over the Group	—	—	18,491
The Parent	—	—	29,699
	—	**—**	**48,190**
Finance lease and sale and leaseback contracts guaranteed by:			
The Parent and entities with significant influence over the Group	—	—	19,919
The Parent and other related parties	—	—	3,373
The Parent	—	—	37,390
	—	**—**	**60,682**

In the year ended 31 December 2009, the Group had bank borrowings and finance lease arrangements guaranteed by TIHL, EIL and other entities in the TIHL group. These arrangements were terminated in that year.

Interest income and expenses

The Group recognised interest income and expenses in connection with related parties for the periods indicated below as follows. See also *"—Loans from related parties"* above.

	For the three months ended 31 March	For the year ended 31 December		
	2012	2011	2010	2009
	(unaudited)		(audited) (USD in thousands)	
Interest expense:				
The Parent	—	—	(899)	(5,360)
	—	**—**	**(899)**	**(5,360)**

In the year ended 31 December 2010, the interest expense related to interest on the consideration payable for the acquisition of Spacecom and Spacecom Trans and the unwinding of the discounting effect which arose as the initial consideration was recognised at fair value by discounting the expected future payments of the deferred acquisition price to their present value at the time of the acquisition. In the year ended 31 December 2009, the interest expense primarily related to interest on the consideration payable for the acquisition of Spacecom and Spacecom Trans and the unwinding of the discounting effect on such liability, as well as the interest expense on the loans provided to the Group by TIHL.

REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA

Set forth below are certain key provisions of Russian legislation relating to railway transportation, which apply to the Group's business activities. However, this description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

Applicable Legislation

The regulation of railway transportation in Russia is primarily based on the following key laws and regulations.

- The Civil Code of the Russian Federation, as amended (the ***Civil Code***):

  The Civil Code regulates proprietary and certain non-proprietary relations between parties of any type, including individuals and legal entities. In particular the Civil Code establishes (i) the rules for obtaining and transferring ownership of movable and immovable property; (ii) the basic rules for concluding, amending, performing and terminating contracts; and (iii) the material terms and conditions of a number of types of contracts (including, but not limited to, forwarding contracts, transportation (carriage) agreements, service agreements, lease agreements, and loan and credit agreements).

- Federal Law "On Railway Transport in the Russian Federation" No. 17-FZ dated 10 January 2003, as amended (the ***Railway Transport Law***):

  The Railway Transport Law establishes the legal framework for the functioning of railway transport in relation to:

  (i) principles and aims of the state regulation of railway transport;

  (ii) regulatory requirements applicable to organisations working in the railway transport sector and to railway transport facilities;

  (iii) safety requirements; and

  (iv) other issues.

- Federal Law "Charter of Railway Transport of Russian Federation" No. 18-FZ dated 10 January 2003, as amended (the ***Railway Transport Charter***):

  The Railway Transport Charter regulates relations between shippers, passengers, consignors, consignees, owners of railway transport infrastructure and other participants in railway transport services, including the principal terms and conditions for transportation services, liability issues for each of the participants and certain procedures for claims and for dispute resolution.

- Federal Law "On Natural Monopolies" No 147-FZ dated 17 August 1995, as amended (the ***Natural Monopolies Law***):

  The Natural Monopolies Law defines the legal basis of the federal policy with respect to natural monopolies in the Russian Federation and aims at achieving a balance of interests of consumers and natural monopolies. In accordance with this law the core services provided by Russian Railways are classified as belonging to the natural monopoly sector and the prices (tariffs) charged by Russian Railways for such services are regulated by the state.

- Federal Law "On Forwarding Services" No. 87-FZ dated 30 June 2003, as amended (the ***Forwarding Law***):

  The Forwarding Law specifies the rules applicable to freight forwarding services. This law defines the rights and obligations of the parties to a freight forwarding contract, sets out liability triggers and provides for certain rules in relation to claims and the resolution of disputes arising out of a freight forwarding contract.

- Federal Law "On Licensing of Certain Types of Activities" No. 99-FZ dated 4 May 2011, as amended (the ***Law on Licensing***):

  The Law on Licensing is discussed below (see *"—Licensing"*).

- Government Regulation "On Approval of the Rules on Forwarding Services" No. 554 dated 8 September 2006, as amended (the ***Forwarding Services Rules***):

  The Forwarding Services Rules set out the list of forwarding documents which constitute integral parts of contracts, the procedure for rendering forwarding services, and the requirements as to the quality of these services.

- Government Regulation "On the Programme of Structural Reform of Railway Transport" No. 384 dated 18 May 2001, as amended (the ***Programme***):

  The main provisions of the Programme are described below (see *"—Structural Reform of Railway Transportation in the Russian Federation—Restructuring the railways system in the Russian Federation"*).

- Government Regulation "On State Regulation and Control of Tariffs, Fees and Duties in Relation to Works (Services) Provided by Natural Monopolies Entities in the Sphere of Railway Transportation" No 643, dated 5 August 2009 (the ***Regulation on Natural Monopolies Tariff***):

  This regulation determines: (a) the aims, principles and methods of the state regulation of tariffs for the services provided by Russian Railways as a natural monopoly; (b) the rules for determination of tariffs; and (c) the supervision over the establishment and application of tariffs.

- Federal Energy Commission Regulation "On Approval of the Price List No. 10-01 "Tariffs for Freight Transportation and Infrastructure Services Provided by Russian Railways" No. 47-t/5 dated 17 June 2003, as amended (the ***Tariff 10-01***):

  The main provisions of the Tariff 10-01 are described below (see *"—The Pricing Policy"*).

- Government Regulation "On Licensing of Certain Activities in Railway Transport" No. 221 dated 21 March 2012.

  This regulation contains rules establishing licensing procedures with respect to railway transportation of passengers (suburban, long-distance, express and high-speed), hazardous freight, as well as with respect to loading and unloading of hazardous freight on railway transport.

- Ministry of Railway Transport Instruction "On Work Performance for the Establishment of Certification System" No. 166u dated 12 November 1996, as amended (the ***Railway Transport Certification Rules***), which approves Rules of Certification of the Federal Railway Transport of Russian Federation, Main Provisions (P SSFZT 01-96).

  The main provisions of the Railway Transport Certification Rules are provided below (see *"—Certification of Cars"*).

- Government Regulation "On Approval of the Rules on Rendering the Services on Common Railway Carrier Infrastructure" No. 703 dated 20 November 2003 and the Ministry of Transport Order "On Approval of Rules for Freight Transportation in the Trains Composed of Locomotives and Cars Owned or otherwise possessed by Dispatchers, Cargo Consignees or Other Legal Entities or Individuals Which are not Railway Carriers Themselves" No. 150 dated 22 October 2007 (the ***Rules for Freight Transportation***):

  The Rules for Freight Transportation regulate the procedure and terms of cargo railway transportation by trains formed of locomotives and cars which are not owned by the railway carrier and provide legal grounds for the use of the railway infrastructure by railway operators.

- The Tax Code of the Russian Federation, as amended (the ***Tax Code***):

  The Tax Code regulates the taxation of legal entities and individuals in Russia.

There are a number of other orders and decrees issued by the Ministry of Transport of Russia, the Federal Agency for Railway Transport and Russian Railways and the Ministry of Railways of Russia (now dissolved, but some of its orders remain in force) which provide detailed regulation of the relationships between the carriers, dispatches, cargo consignees and Russian Railways and set out a contractual framework for such relationships.

INTERNATIONAL AGREEMENTS

Russia is party to international agreements governing railway transportation. In particular, the Agreement on International Railway Cargo Communication applies in Russia, which provides for a direct railway communication for transportation of cargoes among the railways of 23 countries of Europe and Asia. In February 1993, Russia joined the Tariff Agreement of CIS Railway Administrations, as amended (the ***Tariff Agreement***), which sets out a general procedure for the annual approval of maximum freight tariff levels for international transit through the CIS territory. The Tariff Agreement regulates relations between CIS railway administrations, such as Russian Railways in Russia. Only railcars directly owned by Russian Railways fall under this Tariff Agreement. Also, in July 2009 Russia joined the Convention concerning International Carriage by Rail (***COTIF***), the provisions of which apply on certain routes.

THE REGULATORY BODIES

The principal regulatory bodies

At the federal level, regulatory powers over the Russian railway industry are divided between several ministries:

- the Ministry of Transport, which is responsible for the development of governmental policy and legal and regulatory standards in the transport sector of the Russian economy;
- the Ministry of Economic Development, which approves: (i) strategic plans for social and economic development; (ii) the list and order of determination of the indexes of economical efficiency for federal state unitary enterprises and open joint-stock companies whose shares are owned by the Russian Federation, to which Russian Railways belongs; and (iii) opinions on drafts of the legal acts which regulate the relationships between business entities or their relationships with the Russian Federation and which also affect macroeconomic indicators of the Russian Federation; and
- the Ministry of Finance, which determines the state taxation policy of the Russian Federation, considers the provision of subsidies for the development of railway infrastructure and allocates subsidies to regional budgets.

However, the federal ministries in Russia do not have the authority to exercise control over management of state property or to provide state services. These matters are under the jurisdiction of federal services and agencies. The Russian railway industry is influenced by a number of federal services and agencies and primarily by:

- the Federal Agency for Railway Transport, which implements government policies in the railway transportation sector of the Russian economy, monitors legal and regulatory standards, manages state property in the railroad sector, maintains the registers of rolling stock and decides on suspension of freight transportation on certain routes;
- the Federal Transport Supervision Service, which carries out licensing and governmental supervision of railway transport;
- the FTS, which determines and implements state regulation of tariffs and regulates the pricing of natural monopolies in the Russian Federation; and
- the Federal Antimonopoly Service (the ***FAS***), which performs a monitoring and supervision role over compliance by railway transport companies, including Russian Railways, with the antimonopoly legislation of the Russian Federation. In particular, the FAS monitors compliance by legal entities dominating on a particular market with the restriction on creating discriminatory access to its products and services.

The federal services and agencies listed above directly regulate and supervise the Russian railway industry. There are certain other government bodies which, together with their subdivisions, exercise general regulatory functions, in the spheres of emergency procedures, customs, taxation and others, and thereby may affect the Group's business.

At the level of the CIS, the Commonwealth Railway Transportation Council coordinates railway transport activity and provides recommendations with respect to pricing rates and technical policy within the territory of the CIS countries.

Russian Railways also performs some regulatory functions in the Russian railway industry: it issues approvals for the use of locomotives on particular routes, prohibits the transportation of certain cargo in certain types of railway cars, determines the procedure for submitting and agreeing freight carriage applications etc.

Structural Reform of Railway Transportation in the Russian Federation

Restructuring the railways system in the Russian Federation

The Russian railway system has been undergoing reform aimed at improving the quality of the services offered to users. The reform commenced in 2001 with the enactment of the Programme. The main objectives of the reform set out in the Programme were to:

- satisfy the growing demand of the Russian economy for transportation services, both in traffic volume and in quality;
- renew and upgrade assets;
- increase efficiency of asset utilisation;
- provide better incentives to industry employees;
- attract investments for the renovation of the railcar and locomotive fleet; and
- increase efficiency of infrastructure.

The Programme envisaged that the reform of the rail industry (the ***Reform***) would comprise three stages: (i) a preparatory stage and the establishment of Russian Railways, which was completed in 2003; (ii) the set up of subsidiaries of Russian Railways and the spin-off of its competitive businesses to such subsidiaries; this stage is not yet completed; and (iii) the development of competition and the attraction of investments to the newly-developed subsidiaries. While the Programme contemplated completion of the third stage by 2010, that stage's implementation has not been completed. Further, according to the media, there is some uncertainty concerning its full implementation or the prolongation of its term.

First stage: preparation for the reform

The first stage of the Reform assumed the separation of the regulatory and the business functions of the Russian railway system, and the creation of the necessary legal framework. The Ministry for Railway Transport carried out both of these functions until the completion of the first stage in 2003, when Russian Railways was created and the number of private companies participating in the freight rail market was increased.

Second stage: corporate build-up and encouragement of competition

The second stage of the Reform involves restructuring Russian Railways with a view to separating out activities, which may become competing businesses, into newly-established subsidiaries of Russian Railways, has yet to be completed, although significant progress has been made with the creation of two freight rail operators, Freight One and Freight Two, a container transportation subsidiary, TransContainer, a long-distance passenger operator, Federal Passenger Company, and other subsidiaries such as local suburban passenger operators, those performing repairs and maintenance services, and some non-core services.

The Reform provided that the first activities to be split off at this stage would be transit, intermodal and refrigerator freight transportation services, followed by long-distance and suburban passenger transportation services, repairs and maintenance of rolling stock and passenger services. The subsidiaries operating construction, telecommunications and real estate businesses are to be divested closer to the completion stage.

The Reform also provides for the development and implementation of measures necessary to enhance the effectiveness of passenger transportation operations and to decrease cross-subsidies at the expense of freight traffic. The aim of these measures is to create a competitive environment in passenger and freight transportation and to decrease the existing cost burden on the Russian economy by reducing the growth rates of freight traffic tariffs.

The Programme aims to create conditions under which private operators can own and operate their own locomotives, and to increase the percentage of freight cars owned by private operators to 50 per cent. or more of the total number of freight cars in Russia (a goal which the Group estimates to have been achieved with the sale of a controlling stake in Freight One into private ownership). The purpose of the second stage is to create conditions to encourage free market pricing in the competitive sectors of the Russian railway industry.

Third stage: formation and development of a competitive market

The final stage of the Reform outlined in the Programme assumes the further development of competition in passenger and freight transportation. This development includes an increase in the percentage of freight cars owned by private operators to over 70 per cent. or more of the total number of freight cars in Russia, achieved primarily by way of sale of controlling stake in Freight One, and the issuance of licences to operators that can provide long-distance and suburban passenger transportation services. Furthermore, the Programme provides for the partial sale of the shares of subsidiaries of Russian Railways which operate repair facilities and other non-core businesses.

In April 2011, the Government Commission for Transport and Communications approved a step plan for, among other matters, improvement of the railfleet management system and tariff deregulation. In line with this step plan and to support competitive environment on the Russian railway operators market, in May 2012 the Federal Tariff Service amended several of its regulations. These amendments purport to unify Empty Run tariffs into a single tariff applicable to gondola (open top) railcars and flatwagons (subject to certain exemptions), irrespective of the class and nature of cargo last transported. In its press release, the FTS noted that further amendments will be put in place to unify Empty Run tariffs applicable to other types of railcars. As unificiation of Empty Run tariffs is likely to necessitate extensive amendments to the existing railway operators tariff and logistic policies, as well as to their contractual arrangements with customers, the relevant amendments will come into force with effect from 1 November 2012.

ROLLING STOCK OPERATORS

The Group's business includes providing rolling stock for use on the Russian railway system, which is regulated by the Railway Transport Law.

Under the Railway Transport Law, a rolling stock operator is a legal entity or an individual entrepreneur that owns or otherwise possesses railcars, and which provides its rolling stock for use on the basis of an agreement with a carrier. Rolling stock operators may also provide either their own or leased locomotives, or may rely on locomotives provided by Russian Railways. The number of private locomotive operators is currently limited because of a deficit of available locomotives on the market, a lack of a well developed traffic controlling system and insufficient skill in transportation of the significant volume of cargo in traffic.

Current Russian legislation does not clearly specify the characteristics of rolling stock operators' activities. This causes some uncertainty in determining whether a company holds the legal status of a rolling stock operator. Current legislation draws a distinction between rolling stock operators, which own cars, and carriers, which assume an obligation to move cargoes from one point to another on the railway network. Rolling stock operators are also differentiated from the owners of infrastructure such as railway tracks and railway stations. The Group is primarily classified as a rolling stock operator. Russian Railways currently owns most of the railway infrastructure and remains the leading railway carrier in Russia.

In addition to providing its rolling stock to customers, the Group facilitates the creation of transportation agreements between its customers and Russian Railways. As a monopoly carrier, Russian Railways cannot refuse to conclude carriage agreements with the clients of other rolling stock operators, such as the Group, or to prefer its own clients to those of other rolling stock operators.

Certification of Cars

The Railway Transport Law also requires the certification or declaration of rolling stock, which must comply with safety requirements, including health and labour safety, fire safety and environmental protection rules. The Railway Transport Certification Rules specify particular types of rolling stock which must be certified. During the term of a certificate, the rolling stock must be inspected at least once a year to ensure the compliance of certified rolling stock with the applicable legal requirements. Inspection control findings are documented in an official act of inspection. If a breach of certification rules or legal requirements is determined to have occurred, the certificate will be suspended until the certificate holder is able to cure the problem. If the problem is not cured in due course, the certificate may be revoked.

Locomotive Use and Operation Activities

Russian legislation on the use of locomotives owned by private rolling stock operators consists of several general and special laws together with subordinate acts. This legislation is inconsistent, incomplete and ambiguous in relation to procedures for the private operators to use their own locomotives.

Private rolling stock operators may own, lease from third parties or otherwise possess locomotives. A locomotive may be used only if a conformity certificate has been issued for it under the respective certification system of federal railway transport of the Russian Federation.

In order to access the public railways infrastructure, the owner of a private (non-public) railway and the owner of railway cars and locomotives must agree with Russian Railways (as the owner of public railways) on the technological operating conditions for the private train formation. The locomotive owner must obtain a consent to use the relevant railway of Russian Railways for each trip, or series of trips, made by its private locomotive. Also, the locomotive owner must conclude agreements with Russian Railways on technical maintenance, on-going repairs and locomotive operation.

Russian Railways provides crews for locomotives and locomotive repairs. The tariffs for both services are not regulated by FTS but are set out in the Regulation of Russian Railways No. 2328r dated 30 December 2005.

In line with the Reform and with a view to enhancing the development of independent local carriers, the FTS introduced an infrastructure tariff in 2011. Notwithstanding Russian Railways has indicated that it does not support the introduction of private locomotive operators. Based on media reports, the Group understands that regulations establishing the legal framework for private locomotive operator activities, including those giving effect to the calculation of the infrastructure tariff, are likely to be adopted by 2013.

The Group is considering developing its locomotive fleet (it already has 56 locomotives) to expand the range of its services and position itself to gain a share of the independent locomotive operator market when permitted by the Reform.

Rolling Stock Leasing

The business activities of the Group include leasing rolling stock such as locomotives. Leasing activities in Russia are regulated by the Civil Code, which provides that rolling stock is movable property and may be leased pursuant to a lease agreement. Russian law does not require the registration of leases of rolling stock and the commercial terms and conditions of such leases are not subject to state regulation.

The Group's Estonian Subsidiaries are involved only in the leasing of railcars, which, under Estonian law, does not require any specific consents, certificates, licenses or permits. Furthermore, except for the general competition law rules on pricing, Estonia does not regulate the pricing of leasing of railcars.

Freight Forwarding Services

Forwarding services are regulated by the Civil Code, the Forwarding Law, the Forwarding Services Rules and the state standards adopted by Russian governmental authorities. The Russian Forwarders Association, a non-governmental organisation, has also adopted non-binding general terms of forwarding.

Forwarding services include organising cargo transportation, facilitating carriage agreements, supporting cargo shipments and receipts and certain other services ancillary to cargo transportation. The Forwarding Law imposes liability on a forwarder for failure to perform or improper performance of its obligations. This liability is limited in most cases to the actual damage resulting from such failure to perform or improper performance. The law also provides for a one-year limitation period on claims in relation to forwarding services. Prices for forwarding services are currently not state-regulated.

LICENSING

The Law on Licensing sets the requirements for obtaining licences in respect of certain activities, including railway transportation of dangerous freight and transportation of passengers. Railway transportation of cargoes (except dangerous cargoes) is no longer subject to licensing. In the absence of appropriate legal regulation and of a practice of interaction between license holders and Russian Railways, the license holders cannot complete agreements with Russian Railways to allow access to the railway infrastructure and do not actually operate as carriers.

THE PRICING POLICY

According to the Programme, the main aim of the tariff policy for the Russian railway industry is to ensure the development of competition in the provision of railway transport service providers and to ensure non-discriminatory access to the railway infrastructure. Tariffs should ensure a reasonable profit and include projections for renovation and rehabilitation of the infrastructure. Tariffs are set annually but may be reviewed at any time at the discretion of the FTS or the Russian Ministry of Transport (in case of international transit), or as a response to a request from the Russian Ministry of Transport, a state authority or a company.

Generally, the tariffs which apply to the transportation-related services provided by Russian Railways are established by the FTS, except for international transit tariffs set by the Russian Ministry of Transport. The freight tariff structure for the Russian railway sector is divided into two main parts: (a) a general infrastructure and locomotive charge and (b) a railcar charge.

While the infrastructure and locomotive component of the tariff is set by the FTS for all market participants, including Russian Railways and private operators, the railcar component established by the FTS applies only to Russian Railways. Accordingly, private operators such as the Group are free to set their own rates of railcar charges.

The infrastructure and locomotive tariff varies depending on whether the train formation has a private locomotive or a locomotive owned by Russian Railways. In circumstances where the locomotive is owned by a private operator, the tariff imposed is less than the tariff imposed when the locomotive is owned by Russian Railways.

The tariffs charged by Russian Railways primarily depend on the distance, cargo class and type of destination, such as whether the freight is being transported from Russia abroad by rail, or whether the freight is being transported within Russia, including transportation to and from the sea ports. There are three classes of cargo, whereby Class 1 cargo attracts the lowest tariff and Class 3 cargo attracts the highest one. The cargoes transported by the Group fall mostly into Class 2 (oil products and oil) and Class 3 (metals). See *"Russian Rail Transportation Market—Pricing in the Russian railcar sector"*.

The Russian government periodically approves certain parameters for economic growth, including a yearly tariff adjustment for the services of natural monopolies such as Russian Railways. The formation of Freight One and Freight Two have improved the competitive environment in the railway transportation sector and has led to the liberalisation and to subsequent privatisation of price setting. Neither Freight One nor Freight Two are subject to FTS regulation of railcar charges. As a result, the tariffs charged for railway transportation are now more aligned to market rates and, on their own, do not serve as benchmarks for price competition.

DESCRIPTION OF SHARE CAPITAL AND APPLICABLE CYPRIOT LAW

Set forth below is a description of the Company's Share Capital, the material provisions of the Company's memorandum and articles of association in effect on the date of this Offering Memorandum and certain requirements of Cypriot legislation. Holders of New GDRs will be able to exercise their rights with respect to the Ordinary Shares underlying the New GDRs only in accordance with the provisions of the Deposit Agreement and the Deed Poll (see "*Terms and Conditions of the Global Depositary Receipts*") and the relevant requirements of Cypriot law.

PURPOSE

The Company's purpose includes, among other things, the carrying on of investments and trade. The Company's objects are set forth in full in Clause 3 of its Memorandum of Association.

SHARE CAPITAL

The Company was incorporated as Globaltrans Investment Limited, a private company limited by shares on 20 May 2004 with an authorised share capital of USD 5,000,000 divided into 5,000,000 ordinary shares of USD 1 each out of which all 5,000,000 ordinary shares were allotted fully paid; 1,500,000 ordinary shares were allotted to EIL and 3,500,000 ordinary shares were allotted to Leverret Holding Limited (***LHL***). On 11 November 2004, LHL transferred its entire shareholding to TIHL. On 23 May 2005, the authorised share capital of the Company was increased to USD 10,000,000 by the creation of 5,000,000 ordinary shares of USD 1 each. On 31 May 2005, 3,500,000 ordinary shares were issued fully paid and transferred to TIHL and 1,500,000 ordinary shares were issued fully paid to EIL.

On 19 March 2008, by way of a written resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided into 100,000,000 ordinary shares of USD 0.10 each and, on the same day the authorised share capital of the Company was increased to USD 11,695,906.40 divided into 116,959,064 ordinary shares of USD 0.10.

On 7 May 2008, in connection with the admission to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of global depositary receipts to be issued from time to time against the deposit of Ordinary Shares with the depositary, the Company issued 16,959,064 shares to BNY (Nominees) Limited.

On 23 November 2009, the Company increased its authorised share capital from USD 11,695,906.40 divided into 116,959,064 ordinary shares with a par value of USD 0.10 per share to USD 23,391,812.80 divided into 233,918,128 ordinary shares with a par value of USD 0.10 per share.

On 4 May 2012, the Company resolved that the pre-emption rights of existing members of the Company in relation to the 75,782,595 ordinary shares in the Company valued at USD 0.10 each be disapplied in accordance with Article 16 of the Articles of Association, and Section 60B.(5) of the Companies Law, CAP.113 (as amended), for a period of twelve months from the date of the resolution, and that those shares be available to be allotted to such persons as the board of directors of the Company may choose from time to time, in order to give effect to the Company's investment programme and for general corporate and working capital purposes, and for such consideration as the board of directors of the Company may choose.

The Ordinary Shares are in registered form.

As at the date of this Offering Memorandum, the Company's issued share capital consisted of 158,135,533 Ordinary Shares, which are fully paid. The Company's authorised share capital consists of 233,918,128 Ordinary Shares. The Company does not have in issue any listed or unlisted securities not representing its share capital.

Neither the Company nor any of its subsidiaries (nor any party on its behalf) holds any of its Ordinary Shares, except that as at the date of this Offering Memorandum, the Company holds 3,637,117 Ordinary Shares in treasury which were purchased from EIL following a special shareholders' resolution passed on 20 December 2011.

Neither the Company nor any of its subsidiaries has any outstanding convertible securities, exchangeable securities or securities with warrants or any relevant acquisition rights or obligations over the Company's or either of the subsidiaries' authorised but unissued capital or undertakings to increase its issued share capital.

The Company's articles of association and the Companies Law, Cap 113 (as amended), to the extent not disapplied by shareholders' resolution, confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash and, following the Offering, will apply to the Company's authorised but unissued share capital upon expiration of the said twelve-months' disapplication period, unless the Company resolves otherwise. Subject to certain limited exceptions, unless the approval of the Company's shareholders in a general meeting is obtained, the Company must offer shares to be issued for cash to holders of shares on a pro rata basis. None of the Company's shares are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

ARTICLES OF ASSOCIATION

In this section ***Law*** means the Companies Law, Cap. 113 of Cyprus and any successor statute or as the same may from time to time be amended. The Company's current articles of association were adopted on 19 March 2008, with additional amendments made by a shareholders' resolution dated 20 December 2011.

The following is a brief summary of certain material provisions of the Company's articles of association as will be in effect on and immediately prior to the Closing Date.

Rights attaching to Ordinary Shares

All Ordinary Shares have the same rights attaching to them, a summary of which is set forth below.

Issue of shares

As a matter of Law the Ordinary Shares shall be at the disposal of the directors who, upon complying with the provisions of the articles of association and Sections 60A and 60B of the Law, may allot or otherwise dispose of any unissued shares in the appropriate manner as regards the persons, the time and, in general, the terms and conditions as the directors may decide, provided that no share shall be issued at a discount.

Pre-emption rights

Unless otherwise determined by resolution approved at a general meeting of the Company in accordance with the provisions of Section 60B of the Law, all new shares and/or other securities which are convertible into shares in the Company that are to be issued for cash, shall be offered to the existing shareholders of the Company on a pro-rata basis to the participation of each shareholder in the capital of the Company. Any such offer shall be made upon written notice to all the shareholders specifying the number of the shares and/or other securities convertible into shares in the Company, which the shareholder is entitled to acquire and the time periods (which must not be less than fourteen days from the dispatch of the written notice) within which the offer, if not accepted, shall be deemed to have been rejected. If, until the expiry of the said time period, no notification is received from the person to whom the offer is addressed that such person accepts the offered shares or other securities which are convertible into shares of the Company, the directors may dispose of them in any manner as they deem more advantageous for the Company.

Voting rights

Subject to any special rights or restrictions as to voting attached to shares (of which there are none at present), every holder of shares who is present in person or by proxy or (if a corporation) by a representative not himself being a member, shall have one vote and on a poll every holder who is present (if a natural person) in person or by proxy shall have one vote for each share held by him or her. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and that person may exercise the same powers as the corporate shareholder could exercise if it were an individual member.

No shareholder shall be entitled to vote at any general meeting unless all calls or other sums presently owed by him in respect of his shares in the Company have been paid.

Dividend and distribution rights

The Company may in a general meeting of shareholders declare dividends, but no dividend shall exceed the amount recommended by the directors. The directors may from time to time and subject to the provisions of Section 169C of the Law pay to shareholders such interim dividends as appear to the directors to be justified by the Company's profits but no dividend will be paid otherwise than out of profits.

The directors may set aside out of the Company's profits such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for any purpose to which the Company's profits may properly be applied, and pending such application may, at the directors' discretion, either be employed in the Company's business or be invested in such investments (other than the Company's shares) as the directors may from time to time think fit. The directors may also, without placing the same in the reserve, carry forward to the next year any profits which they may think prudent not to distribute.

Variation of rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class may, subject to the provisions of Sections 59A and 70 of the Law, whether or not the Company is being wound up, be amended or abolished with the sanction of a resolution approved in accordance with the provisions of Section 59A of the Law at a separate general meeting of the holders of the shares of the class. The decision shall be taken by a two-thirds majority of the votes, unless at least half of the issued capital is represented, in which case a simple majority shall be sufficient.

Alteration of capital

The Company may by resolution taken in accordance with the provisions of Section 59A of the Law:

(a) increase its share capital by such sum, to be divided into shares of such amount, as the resolution shall prescribe;

(b) consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares;

(c) subdivide its existing shares, or any of them, into shares of a smaller amount than is fixed by the memorandum of association subject, nevertheless, to the provisions of Section 60(1)(d) of the Law; and

(d) cancel any shares which, at the date of the passing of the resolution, have not been taken nor agreed to be taken by any person.

The Company may also, by special resolution, reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and subject to any terms required by the Law (including court approval).

Redemption of shares

Subject to the provisions of Section 57 of the Law, any preference shares may, with the sanction of an ordinary resolution, be issued on the condition that they are, or at the option of the Company are liable to be, redeemed on such terms and in such manner as the Company, prior to the issue of such shares, may by special resolution determine.

Winding up

If the Company shall be wound up, the liquidator, may, with the sanction of an extraordinary resolution of the Company's shareholders, and any other sanction required by the Law:

(a) divide among the shareholders in kind or in specie all or part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as the liquidator deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the shareholders or different classes of shareholders; and

(b) vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit, but so that no shareholder shall be compelled to accept any shares or other securities whereon there is any liability.

Form and transfer of shares

The instrument of transfer of any share shall be executed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to be the holder of the share until the name of the transferee is entered into the register of members in relation to such share.

Directors

Number of directors

The minimum number of directors shall be two and there shall be no maximum. The Company may, from time to time, by ordinary resolution of the shareholders, increase or reduce the number of directors, provided that such number shall not be smaller than the minimum number of directors as provided in the articles of association.

Board of Directors

The quorum necessary for the transaction of the business of the directors shall be at least half of all the directors of the Company, including (according to the terms of reference of the board of directors) at least one independent non-executive director. Additionally, a resolution in writing, signed and approved by letter, telegram, telefax, electronic mail or by any other means of transmission of written documents by all the directors shall be as valid and effective for all purposes as if the same had been passed at a meeting of the directors duly convened and held.

The simultaneous connection through telephone or other means of communication of a number of directors constituting a quorum, even if one or more of these directors are outside Cyprus, shall be deemed to constitute a meeting of the directors, provided that (i) all the directors shall be entitled to receive notice of a meeting by means of a telephone or other means of communication and to be connected by telephone or other such means of communication for the purposes of such meeting and (ii) each director participating at the meeting must be able to hear each one of the other directors participating at the meeting. The Company's terms of reference of the board of directors provide that notice of a meeting be provided to directors at least seven days in advance, and that the supporting materials and agenda be provided at least five days in advance of a proposed meeting of the board.

Questions arising at any meeting of the Board of Directors shall be decided by a majority of votes. In the case of equality of votes, the chairman shall not have a second or casting vote. A director may, and the secretary on the requisition of a director shall, at any time, summon a meeting of the directors.

The directors may resolve to form committees with power to review and consider, and supervise over the matters delegated to the relevant committee (including without limitation the accounts, financial controls and governance controls and matters within the competency of the audit, nomination and remuneration committees) and to provide advice to the Board and/or shareholders in relation to such matters (but not any of the other powers of the Board).

Appointment of directors

No person may be elected as a director at any general meeting unless proposed by the directors, or unless a written notice, signed by a shareholder who is entitled to attend and vote at the said meeting of the Company is delivered to the registered office of the Company, stating his or her intention to propose the said person for election, along with a written notice signed by the said person, stating his readiness to be elected, at least three and no more than twenty-one days before the date fixed for the meeting.

The Company may by ordinary resolution of the shareholders, of which special notice has been given in accordance with Section 136 of the Law, remove any director before the expiration of his period of office notwithstanding anything in the articles of association or in any agreement between the Company and such director. Such removal shall be without prejudice to any claim such director may have for damages for breach of any contract of service between him and the Company.

The shareholders of the Company may, at any time and from time to time appoint by ordinary resolution any person as director either to fill a causal vacancy or as an additional director and specify the period during which the said person shall hold this position.

The office of director shall be vacated if the director:

(a) becomes bankrupt or makes any arrangement or composition with his creditors generally; or

(b) becomes prohibited from being a director by reason of any court order made under Section 180 (disqualification from holding the position of director on the basis of fraudulent or other conduct) of the Law; or

(c) becomes of unsound mind; or

(d) resigns his office by notice in writing to the Company; or

(e) shall have been absent, for reasons which are not related to the business of the Company, for more than six months, from at least three consecutive meetings of the board of directors which were duly convened and held, without the permission of the board.

Directors' interests

A director who is in any way directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the directors in accordance with Section 191 of the Law. Directors who have an interest in any contract, agreement or settlement proposed to be concluded between the Company and a third party may attend the meeting at which the matter is discussed but shall not have the right to vote (and if he does vote, his vote shall not be counted and he shall not be counted in the quorum at the meeting), but none of these restrictions shall apply in relation to:

(a) any arrangement for the provision to any director, of any security or guarantee in relation to money which he paid or obligations which he undertook in favour of the Company; or

(b) any arrangement for the provision by the Company of any security to third parties in relation to a liability or obligation of the Company for which the director himself assumed responsibility whether wholly or in part pursuant to any guarantee or by the deposit of any security; or

(c) any contract for the countersignature or subscription by any director in relation to shares or debentures of the Company; or

(d) any contract or arrangement with any other company in which he is interested only as officer of the Company or as holder of shares or other securities.

The above-mentioned restrictions may at any time be suspended or varied to any extent, only by the Company in general meeting.

A director who to his knowledge is in any way, whether directly or indirectly, interested in a contract with the Company shall declare the nature of his interest at the meeting of the directors at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the directors after he knows that he is or has become so interested.

The directors may hold any other office or profit making position in the Company along with the office of director (other than the office of an independent auditor) for such period and on such terms (as to remuneration and other matters) as the directors may determine; and no director or prospective director shall be disqualified on the grounds of holding such office, from contracting with the Company whether with regard to his tenure or any such other office or place of profit or as a vendor, purchaser or otherwise; nor shall any such contract, or any contract or settlement concluded by or on behalf of the Company in which any director has, in any way, interest, be liable to be avoided; nor shall any director so contracting or having such an interest be liable to account to the Company for any profit realised by any such contract or settlement by reason of such director holding that office or of the fiduciary relationship thereby established.

The directors may act either personally or in a professional capacity for the Company, and the director or his firm shall be entitled to remuneration for professional services as if he were not a director; provided that a director or his firm shall not act as auditor to the Company.

The remuneration of the directors shall be determined from time to time by the shareholders of the Company in a general meeting. In addition to and independently of such remuneration, any managing directors shall receive such remuneration as the directors may determine from time to time. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the directors or in connection with the business of the Company.

A director need not be a registered holder of shares in the Company to be a director. On 20 August 2008, the Company adopted the Code of Practice on Dealings in Securities which regulates insider dealings in GDRs. This code requires that when directors intend to purchase GDRs in the Company, they must first seek clearance from the chairman (or the director appointed by the board for this purpose). The chairman or the chief executive officer of the Company must seek such clearance from the board. Dr. Johann Franz Durrer obtained such clearance and acquired 100, 000 GDRs, all of which are currently held by him.

Directors' powers

The business of the Company shall be managed by the directors, who may exercise all such powers of the Company as are not, by the Law or by the articles of association, required to be exercised by the shareholders in general meeting, subject nevertheless to any provisions of the articles of association, of the Law and of any regulations (which are not in conflict with the articles of association or the provisions of the Law) as may be prescribed by the Company in general meeting; but no regulation made by the Company in general meeting shall invalidate any prior act of the directors which would have been valid if that regulation had not been made.

Meetings of shareholders

The first annual general meeting must be held within 18 months of incorporation, and thereafter not more than 15 months shall elapse between the date of one annual general meeting and the next.

The directors may, whenever they think fit, decide by a majority vote to convene an extraordinary general meeting. Extraordinary general meetings shall also be convened on requisition or, in default, they may be convened by such requisitionists as provided by Section 126 of the Law, i.e. shareholders holding at least 10 per cent. of the issued share capital of the Company. If at any time there are not, within Cyprus, sufficient directors capable of forming a quorum, any director or any two shareholders may convene an extraordinary general meeting in the same manner or as approximately as possible as such meetings would be convened by the directors.

The annual general meeting and a meeting called for the passing of a special resolution shall be called by at least twenty-one days' written notice. The Company's other meetings shall be called by fourteen days' written notice at least, provided the requirements of section 127 of the Law are complied with. In case of special business, the notice shall specify the general nature of that business.

A notice convening a general meeting must be sent to each of the shareholders, provided that the accidental failure to give notice of a meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice, shall not invalidate the proceedings at that meeting to which such notice refers. All shareholders are entitled to attend the general meeting or be represented by a proxy authorised in writing. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands, every member present (if a natural person) in person or by proxy or (if a corporation) by a representative not himself being a member, shall have one vote, and on a poll, every member shall have one vote for each share of which he is the holder (which may be given personally or by proxy).

The quorum for a general meeting will consist of at least one shareholder, representing at least 50 per cent. of the issued share capital of the Company, present in person or by proxy. If within half an hour from the time appointed for the meeting a quorum is not formed, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case, it shall stand adjourned on the same day the following week, at the same time and place or on such other day and at such other time and place as the directors may determine and specify and if at the adjourned meeting a quorum is not formed within half an hour from the time appointed for the meeting, members present shall form a quorum.

Subject to the provisions of the Law, a resolution in writing which bears the signature or has been passed by letter, facsimile, electronic mail, telegram or other means of transmission of written documents by each shareholder, who has the right to receive notice of the holding of general meetings, attend and vote (or in the case of legal persons the signature of their authorised representatives), is valid and has the same legal effect as if the resolution had been passed at a meeting of the Company duly convened and held.

CYPRIOT LAW

General

The principal legislation under which the shares have been created and under which the Company was formed and now operate is the Cyprus Companies Law. The liability of shareholders is limited. Under the Cyprus Companies Law, Cap 113 (as amended), a shareholder of a company is not personally liable for the acts of the company, save that a shareholder may become personally liable by reason of his or her own acts.

According to Cyprus law, whenever shares and/or other securities which are convertible into shares will be issued by a public company in exchange for a cash consideration, the shareholders have pre-emption rights with respect to such issuance of shares. These pre-emption rights may be disapplied by a resolution of the general meeting which is passed by a two thirds majority if less than half of all the votes are represented at the meeting and by an ordinary resolution if at least half of all the votes are represented at the meeting. The directors have an obligation to present to the relevant general meeting a written report which explains the reasons for the disapplication of the pre-emption rights and justifies the proposed allotment price of the shares.

Takeover bids

As a company with its registered office in Cyprus whose securities represented by GDRs are listed on a regulated market in the United Kingdom, any offer for such GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers (the ***City Code***) in respect of consideration, disclosure requirements and procedural matters applicable to the offer, while Cypriot law would apply to such an offer in relation to company law matters, including the threshold for a mandatory bid.

Pursuant to Article 5(1) of Directive 2004/25/EC of the Parliament and Council of the European Union dated 21 April 2004 on takeover bids (the ***Takeover Directive***), all member states of the European Union are required to introduce legislation requiring any person who, together with those acting in concert with him, acquires "control" of a company having its registered office in that member state, to make a mandatory offer to all holders of securities of the company. Pursuant to the Takeover Directive, the percentage of voting rights conferring "control" is to be determined by the rules of the member state in which the company has its registered office. Currently applicable Cyprus law contains provisions relating to mandatory offers requiring any person who acquires shares in a company to which such law applies, which together with the shares already held by him and by persons acting in concert with him, carry 30 per cent. or more of such company's voting rights, to make a general offer for that company's entire issued share capital. However, these provisions are expressed to apply only to companies listed on a regulated market in Cyprus. Accordingly, notwithstanding the requirements of the Takeover Directive, it appears there would currently be no requirement for any person acquiring control of the Company to make an offer to acquire the GDRs or Ordinary Shares held by other holders. Nonetheless, the Cyprus Securities and Exchange Commission (the ***CySEC***) may take the view that the relevant provisions of the Cypriot legislation implementing the Takeover Directive, which is the Public Take Over Bids Law, law no. 41(I)/2007 as amended (the ***Cyprus Takeover Law***), will apply to a Cypriot company listed on a regulated market in other EU member states.

Section 13 of the Cyprus Takeover Law provides that, where a person, as a result of acquisition by himself or by persons acting in concert with him, holds securities of a company which, added to any existing holdings by him or by persons acting in concert with him, directly or indirectly give him 30 per cent. or more of the existing voting rights in such company at the date of the acquisition, such a person is under an obligation to immediately make a bid to all holders of such securities for their entire holding at a fair price. Such mandatory bid obligation will apply in each of the following set of circumstances, which is a non-exhaustive list:

(i) where such person does not hold any securities in such company at all or holds securities representing less than 30 per cent. of the voting rights and the acquisition gives such person 30 per cent. or more of the voting rights in such company; or

(ii) where such person already has a holding of 30 per cent. or more, but less than 50 per cent. of such company's voting rights, and proposes to increase his holding.

Section 14 of the Cyprus Takeover Law provides that, where a person already holds more than 50 per cent. of the voting rights in a company, further acquisition of securities in such company does not trigger an obligation for a mandatory bid provided the CySEC has granted an exemption (which may be granted only if such acquisition does not affect the rights of minority holders).

Under section 36 of the Cyprus Takeover Law, where the offeror has made a bid to all the holders of such securities for their entire holding, the offeror has the right to require the holders of any remaining securities to sell such securities to him in any of the following situations:

(i) where the offeror holds securities representing at least 90 per cent. of all securities carrying voting rights and at least 90% of the voting rights in the company; or

(ii) where the offeror holds or has irrevocably agreed to acquire, following the acceptance of a takeover bid, securities in the company representing at least 90 per cent. of all securities carrying voting rights and at least 90 per cent. of the voting rights included in the takeover bid.

The offeror may exercise such right within three months from the end of the period allowed for acceptance of the bid, by submitting an application to the CySEC, in which the consideration for the securities must be specified. The consideration must take the same form as and be at least equal to the consideration offered in the bid. A cash alternative is permitted, if accepted by the recipient.

Furthermore, section 37 of the Cyprus Takeover Law provides that a holder of any remaining securities in any of the two situations described above has the right to require the offeror to buy his securities at a fair price, being at least equal to and taking the same form as the consideration offered in the bid, including a cash alternative if acceptable to the recipient, provided that such right is exercised within three months from the end of the period allowed for acceptance of the bid.

The Cyprus Companies Law also contains provisions in respect of squeeze out and sell out rights. The effect of these provisions is that, where a company (the "offeror company") makes a take-over bid for all the shares or for the whole of any class of shares of a Cypriot company, and the offer is accepted within four months after the making of the offer by the holders of not less than 90 per cent. in value of the shares concerned (other than shares already held by or on behalf of the offeror company), the offeror company can, within two months from the expiration of the said four months, upon the same terms acquire the shares of shareholders who have not accepted the offer, unless such persons can, within one month from the date on which the notice was given, persuade the court not to permit the acquisition. If the offeror company already holds more than 10 per cent. in value of the shares concerned, additional requirements need to be met before the minority can be squeezed out. If the offeror company acquires sufficient shares to aggregate, together with those already held by it or on its behalf, 90 per cent. or more in value of the shares concerned then, within one month of the date of the transfer which gives the 90 per cent., it must give notice of the fact to the remaining shareholders and such shareholders may, within three months of the notice, require the offeror company to acquire their shares and the offeror company shall be bound to do so upon the same terms as in the offer or as may be agreed between them or upon such terms as the court may order.

There have been no public takeover bids by third parties for all or any part of the Company's equity share capital since its date of incorporation.

Disclosure obligations

GDR holders may be subject to the following disclosure requirements under the law on Transparency Requirements (Securities Traded on a Regulated Market), Law No.190(I)/2007 (the ***Cyprus Transparency Law***) in circumstances which relate to the acquisition or disposal of voting rights.

Pursuant to such requirements, a GDR holder would have to notify the CySEC and the Company each time the percentage of Company voting rights held by such holder reaches or falls below the thresholds of 5 per cent., 10 per cent., 15 per cent., 20 per cent., 25 per cent., 30 per cent., 50 per cent. or 75 per cent. of the Company's total voting rights, as a result of an acquisition or disposal of GDRs.

When calculating the percentage of voting rights held by the holder, voting rights which such holder is entitled to acquire, dispose of or exercise in the following circumstances must also be taken into account:

- voting rights held by a third person with whom the holder has entered into an agreement obliging the parties to adopt, through the co-ordinated exercise of their voting rights, a lasting common policy as to the management of the Company;
- voting rights held by a third person with whom the holder has entered into an agreement, which provides for the temporary transfer, for consideration, of the exercise of those voting rights;
- voting rights attaching to shares which have been deposited with the holder as security, provided the holder controls the voting rights and has declared its intention to exercise them;
- voting rights attaching to shares of which the holder is beneficial owner for life;
- voting rights which are held or can be exercised in the manner described under the previous four bullet points, by an enterprise "controlled" by the holder;
- voting rights attaching to shares that have been deposited with the holder and which the holder can exercise at its discretion, in the absence of specific instructions by their holder;
- voting rights held by a third person in his own name but for the account of the holder; and
- voting rights, which the holder is entitled to exercise at its discretion, as an attorney for the registered holder, in the absence of specific instructions from the registered holder.

In this context, an enterprise "controlled" by the holder is an enterprise in which the holder:

- has the majority of voting rights; or
- has the "right to appoint or dismiss" the majority of the members of the enterprise's administrative, managerial or supervisory organ and is simultaneously a shareholder or a partner in the enterprise; or
- is a shareholder or partner and controls by itself, pursuant to an agreement entered into with the other shareholders or partners of the enterprise, the majority of the voting rights of the shareholders or partners; or
- has power to exercise or de facto exercises dominant influence or control.

The holder will be deemed to have the "right to appoint or dismiss" where such a right belongs to:

- an enterprise controlled by the holder; or
- a person acting in its own name but for the account of the holder or an enterprise controlled by the holder.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts (***GDRs***) represented by this certificate are each issued in respect of one Ordinary Share of nominal value USD 0.10 (the ***Shares***) in Globaltrans Investment PLC (the ***Company***) pursuant to and subject to an agreement dated 7 May 2008, and made between the Company and The Bank of New York Mellon in its capacity as depositary (the ***Depositary***) for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the ***Deposit Agreement***). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY (Nominees) Limited, as Custodian to receive and hold on its behalf any relevant documentation respecting certain Shares (the ***Deposited Shares***) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the ***Deposited Property***). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the ***Conditions***), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY (Nominees) Limited, or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in the United Kingdom as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the Global Depositary Receipts While in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.

References in these Conditions to the ***Holder*** of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the ***Register***) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the Depositary in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Cyprus of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Cyprus of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement (*which is described in the following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement (*which is described in the second following paragraph*) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States (as defined in Regulation S under the Securities Act) and will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions—Transfer Restrictions".

The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies, among other things that the person providing such certificate is a QIB or is acting for the account of another person and such person is a QIB and, in either case, will comply with the restrictions on transfer set forth under "Selling and Transfer Restrictions—Transfer Restrictions".

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a separate temporary Master Regulation S GDR and/or temporary Master Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and/or a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR or Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a ***Pre-Release***). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property is to be delivered (the ***Pre-Releasee***) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8). The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 and in Schedule 4 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a US securities exchange or quoted on a US automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master

Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the ***Securities Act***).

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:-

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:-

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in US Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the ***Primary GDR Rights Offering***), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs (***Additional GDR Rights***) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the ***Instruction Date***) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights (***Additional GDR Rights Requests)*** shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the ***Maximum Additional Subscription***) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (***Unsubscribed Rights***), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in US Dollars or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Cypriot counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Cypriot and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Cyprus in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have voting rights with respect to the Deposited Shares. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Cypriot law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Cypriot law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary (either because no voting instructions are returned to the Depositary or because the voting instructions are incomplete, illegible or unclear) from a Holder with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Cypriot law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Cypriot law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Cypriot law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the ***Charges***) shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the

Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Cyprus or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Condition 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company and further provided that the Depositary shall exercise reasonable care in selection of any delegate. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depositary, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Cypriot law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

14.21 Nothing in this Agreement shall exclude any liability for loss or damage caused by fraud on the part of the Depositary.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: USD 5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of USD 1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of USD 0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: USD 5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of USD 0.05 or less per GDR;

(vii) a fee of USD 0.02 or less per GDR (or portion thereof) per annum for depositary services which shall be payable as provided in paragraph (viii) below; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the ***Agents***) for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the "Official List") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Cyprus, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the Financial Services Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit

Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List and admitted to trading on the London Stock Exchange and the rules of the Financial Services Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:

(i) in respect of the financial year ending on 31 December 2007 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Company, prepared in conformity with International Financial Reporting Standards, as adopted for use in the European Union and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;

(ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company, as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and

(iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, if at any time the Company is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Company in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the Securities Act, to permit compliance with

Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Cypriot law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Law Debenture Corporate Services Inc. as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a ***Dispute***) which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs (***Proceedings***) may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM

The New GDRs will be evidenced by (i) the Master Regulation S GDR in registered form and (ii) the Master Rule 144A GDR in registered form. The Master Rule 144A GDR is registered in the name of Cede & Co. as nominee for DTC, and is held by The Bank of New York Mellon in New York as custodian for DTC. The Master Regulation S GDR is deposited with The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited.

The Master GDRs contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs set forth under *''Terms and Conditions of the Global Depositary Receipts''*. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the *''Terms and Conditions of the Global Depositary Receipts''* shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described below in whole but not in part. The Depositary has irrevocably undertaken in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 calendar days in the event that:

- DTC, or any successor to DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, Luxembourg, or any successor to them, in the case of the Master Regulation S GDR, notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream, Luxembourg in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days;
- in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a ''clearing agency'' registered under the Exchange Act, as amended; or
- the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the Company's expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream, Luxembourg or DTC. Pursuant to the conditions set forth under *''Terms and Conditions of the Global Depositary Receipts''*, upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR, or any distribution of GDRs or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the relevant Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

PAYMENTS, DISTRIBUTIONS AND VOTING RIGHTS

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of the relevant funds from the Company. Any free distribution or rights issue of Ordinary Shares to the Depositary on behalf of the Holders will result in the records maintained by the Depositary being adjusted to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders will have voting rights as set forth under "Terms and Conditions of the Global Depositary Receipts".

SURRENDER OF GDRS

Any requirement in the *"Terms and Conditions of the Global Depositary Receipts"* relating to the surrender of a GDR represented by the Master Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear and Clearstream, Luxembourg, and relating to the surrender of a GDR represented by the Master Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

NOTICES

For as long as the Master Regulation S GDR is registered in the name of the common depositary (or its nominee) for Euroclear and Clearstream, Luxembourg, and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR, and to DTC with respect to the Master Rule 144A GDR, for communication to persons entitled thereto in substitution for delivery of notices in accordance with their terms except that so long as the GDRs are listed on the Official List maintained by the Financial Services Authority and admitted for trading on the London Stock Exchange and the Financial Services Authority or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

The Master GDRs are governed by and must be construed in accordance with English law.

TAXATION

The following summary of material Cyprus, US federal income and United Kingdom tax consequences of ownership of the New GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Memorandum. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of New GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of New GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of New GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as at the date of this Offering Memorandum, and of any actual changes in applicable tax laws after such date.

CYPRUS TAX CONSIDERATIONS

Tax residency

A company which is considered to be a resident for tax purposes in Cyprus is subject to corporate income tax in Cyprus (***Corporate Income Tax***) on its worldwide income, subject to certain exemptions. A company is considered to be a resident of Cyprus for tax purposes if its management and control is exercised from Cyprus.

With respect to the individual New GDR holders, an individual is considered to be a tax resident of Cyprus if he or she is physically present in Cyprus for a period or periods exceeding in aggregate more than 183 days in any calendar year.

Rates of taxation applicable to the Company

The rate of Corporate Income Tax in Cyprus is 10 per cent.

Defence Tax is levied on certain types of income. Defence Tax applies, subject to any available exemptions, at the following tax rates:

(a) 3 per cent. on 75 per cent. of rental income;

(b) 15 per cent. on interest income received or credited not arising in the ordinary course of the business or closely connected therewith; and

(c) 20 per cent (17 per cent as of 1 January 2014) on dividend income received from non-Cyprus resident companies.

Defence Tax is levied on the gross amount of income without any deduction for expenses.

Capital gains tax (*Capital Gains Tax*) is levied in Cyprus at a rate of 20 per cent. on profits from disposal of immovable property situated in Cyprus or shares of companies which own immovable property situated in Cyprus (unless the shares are listed on a recognised stock exchange).

Taxation of income and gains of the Company

Gains from the disposal of securities

Any gain from disposal of securities by the Company shall be exempt from Corporate Income Tax irrespective of the trading nature of the gain, the number of shares held or the holding period and shall not be subject to Defence Tax. Such gains are also outside the scope of Capital Gains Tax provided that the company which shares are disposed of does not own any immovable property situated in Cyprus.

The definition of securities includes shares and bonds of companies or legal persons wherever incorporated and options thereon. GDRs are generally accepted as falling within the definition of securities.

The Russia-Cyprus double tax treaty grants Cyprus the exclusive right of taxing capital gains realised on disposal of securities by a Cypriot resident entity, which does not carry on activities in Russia through a permanent establishment (***PE***). However, pursuant to the Protocol to the Russia-Cyprus double tax treaty signed on 16 April 2009 (effective as of 1 January 2013), a new paragraph will be added to the Capital gains article to allocate the taxing rights to the source state (i.e. Russia) with respect to gains derived by a company resident in the other Contracting state (i.e. Cyprus) from the alienation of shares (or similar rights) in companies that derive more than 50 per cent. of their value from immovable property situated in other Contracting state (i.e. Russia) subject to a number of exemptions. This provision will come into force on 1 January 2017.

Dividends to be received by the Company

Under the Russia-Cyprus double tax treaty, the maximum rate of Russian withholding tax on dividends should be 10 per cent. provided that the Company is the beneficial owner of the dividend income received and does not have a PE in Russia. This rate can be reduced to 5 per cent. if the Company has invested in the capital of a Russian company not less than the equivalent of USD 100,000 (EUR 100,000 as of 1 January 2013).

Dividend income (whether received from Cypriot resident or non-resident companies) is exempt from Corporate Income Tax in Cyprus. Moreover, dividend income received from other Cypriot resident companies is exempt from Defence Tax. Dividend income received from non-Cypriot resident companies is exempt from Defence Tax, unless the company paying the dividend engages directly or indirectly for more than 50 per cent. in activities which generate investment income and the foreign tax burden of the company paying the dividend is substantially lower than the tax burden of the company in Cyprus receiving the dividend (in practice "foreign tax burden being significantly lower" means that the dividend paying company is taxed at an effective tax rate of less than 5 per cent.). If the exemption for Defence Tax does not apply, dividends from non-Cypriot resident companies are subject to 20 per cent. Defence Tax (reduced to 17 per cent as of 1 January 2014).

Any foreign withholding tax incurred by the Company can be credited against any Defence Tax payable (if at all) in Cyprus in respect of dividend income. Moreover, the Company is eligible to claim foreign tax relief in respect of any underlying tax (i.e. corporate tax on profits) incurred by its Russian subsidiaries in case the dividend income from such companies is subject to Defence Tax. Furthermore, in case the Company receives dividends from a company which is resident in another EU member-state and these dividends are subject to Defence Tax, it is possible to claim a credit for any underlying tax which was paid in the other member-state. In this instance, the underlying tax relief includes the proportion of tax on the profits of the company paying the dividend and of any of its subsidiaries from which the dividend arises.

Interest income

Any interest accruing to the Company which is considered to arise in the ordinary course of its business, including interest which is closely connected with the ordinary course of its business qualifies as business income and shall be subject to Corporate Income Tax in Cyprus at a rate of 10 per cent. Such interest income shall be exempt from Defence Tax.

Specifically, interest income arising in connection with the provision of loans to related or associated parties should be generally considered as income arising from activities closely connected with the ordinary carrying on of a business and should as such be exempt from Defence Tax and only be subject to Corporate Income Tax.

Any other interest income (not arising in the ordinary course of its business or closely connected therewith) shall be exempt from the Corporate Income Tax and shall be subject to the Defence Tax at a rate of 15 per cent.

Taxation of income and gains of the New GDR holders

Gains from disposal of New GDRs by the New GDR holders

A gain realised on the sale of New GDRs by a non-resident holder shall not be subject to taxation in Cyprus.

A gain realised on the sale of New GDRs by a resident holder shall be exempt from Corporate Income Tax in Cyprus as New GDRs are considered to fall within definition of securities for Cypriot tax purposes. Such gains shall also be exempt from Capital Gains Tax in Cyprus since the GDRs will be traded on a recognised stock exchange.

Dividends to be received by the New GDR holders

The Company is obliged to send out a questionnaire (IR 42 Questionnaire) to all of its shareholders (both individuals and corporate bodies) to ascertain their tax residency status. Through the questionnaire, the shareholders should inform the Company of their tax residency status. The Company is required to safe-keep these questionnaires and present them to the Cyprus tax authorities upon request.

Dividends to be received from the Company by non-resident New GDR holders and corporate resident New GDR holders shall not be subject to taxation in Cyprus, either by way of withholding or otherwise.

Dividends to be received from the Company by resident individual New GDR holders shall be subject to Defence Tax at a rate of 20 per cent (reduced to 17 per cent as of 1 January 2014). In this instance, the Company will have an obligation to withhold and remit the resulting Defence Tax to the tax authorities in Cyprus.

Deemed distribution rules

The Defence Tax Law includes provisions for the deemed distribution of profits. If a Cypriot tax resident company does not distribute within two years from the end of the relevant tax year at least 70 per cent. of its after tax accounting profits (excluding revaluations, impairments and fair value adjustments), there will be a deemed distribution of 70 per cent. of such profits. The amount of deemed dividend is reduced by any actual distributions made up to the deemed distribution date. The Defence Tax is withheld only on the proportion of profits that are attributable to shareholders that are considered to be residents of Cyprus (both individuals and bodies of persons) as the deemed distribution rules do not apply to non-resident shareholders. The Defence Tax is a tax on shareholders payable by the Cyprus company which its profits are subject to the deemed distribution rules. The deemed dividend is subject to the Defence Tax at a rate of 20 per cent. (reduced to 17 per cent. as of 1 January 2014).

Through a Circular (2011/ 10 dated 13 September 2011), the Commissioner of Income Tax has clarified that the deemed distribution rules should apply only in cases where the ultimate (beneficial) shareholders of a Cyprus (tax resident) company are considered to be residents for tax purposes of Cyprus. Certain declarations should be filed with the tax authorities in case the direct registered shareholder(s) is a company considered to be resident for the tax purposes of Cyprus.

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

The Company is obliged to send out a questionnaire (IR 42 Questionnaire) to all of its shareholders (both individuals and corporate bodies) to ascertain their tax residency status. Through the questionnaire, the shareholders should inform the Company of their tax residency status. The Company is required to safe-keep these questionnaires and present them to the Cyprus tax authorities upon request.

Withholding taxes on payments of interest

No withholding taxes shall apply in Cyprus with respect to payments of interest by the Company to non-tax resident lenders (both corporations and individuals).

There shall be no withholding tax in Cyprus on interest paid by the Company to Cypriot tax resident corporate lenders. This is unless the resident corporate lender receiving the interest is not considered to have generated this interest in the course of its ordinary activities (or in connection with activities closely connected to the ordinary carrying on of its business), which in this case the Company shall have an obligation to withhold Defence Tax at a rate of 15 per cent. on interest payments made in favour of Cypriot tax resident corporate lenders.

Any payment of interest by the Company to Cypriot tax resident individual lenders shall be subject to withholding tax in Cyprus at a rate of 15 per cent. This is unless the resident individual lender receiving the interest is considered to have generated this interest in the course of its ordinary activities (or in connection with activities closely connected to the ordinary carrying on of its business) and has provided the Company with confirmation in writing from the Cypriot tax authorities confirming this, in which case the Company shall have no obligation to withhold any Defence Tax..

Tax deductibility of interest expenses

Interest expenses are tax deductible if they are incurred wholly and exclusively for the production of taxable income. However, no deduction shall be allowed for interest applicable or deemed to be applicable to the cost of purchasing assets not used in the business. This provision applies for a period of seven years from the date of purchase of the relevant asset. In this respect and based on the current tax policy, the investment in a subsidiary or an associated company is considered as non-business asset and any interest expense that relates (or deemed to relate) to the acquisition/financing of such assets (even if a subsidiary is to distribute dividends on a regular basis) is considered not to be tax deductible. The restricted interest expense is usually determined by the following apportionment methodology: cost of the investment in shares multiplied by the average interest borrowing rate.

It is also relevant to note that in accordance with tax legislation enacted on 21 June 2012 taking retrospective effect as from 1 January 2012, it may be possible to claim an interest expense deduction for Corporate Income Tax purposes if the purpose of the loan was to finance the acquisition of an investment in a wholly owned subsidiary company (which is made as of 1 January 2012) subject to certain conditions and restrictions. However, as of the date of this Offering Memorandum, the law allowing for the tax deductibility of interest expenses has not yet been signed by the President of the Republic and consequently has not yet been published in the Official Gazette of the Republic meaning that the law has not yet come into force.

Capital duty

Capital duty in the form of registration fees is payable to the Registrar of Companies in respect of the registered authorised and issued share capital of a Cypriot company upon its incorporation and its upon subsequent increases thereon.

The capital duty rates for subsequent changes of the registered authorised and issued share capital are as follows:

(a) 0.6 per cent. on the nominal value of additional registered authorised share capital; and

(b) EUR 17.09 flat duty on every issue, whether the shares are issued at their nominal value or at a premium.

No capital duty is payable on share premium.

Stamp duty

Cyprus levies stamp duty on every instrument if:

(a) it relates to any property situated in Cyprus; or

(b) it relates to any matter or thing which is performed or done in Cyprus.

There are instruments which are subject to stamp duty in Cyprus at a fixed fee (ranging from three cents to EUR 34.17) and instruments which are subject to stamp duty based on the value of the instrument (0.15 per cent. for the first EUR 170,860.14 and 0.2 per cent. thereafter plus EUR 256.30 for contract exceeding EUR 170,860.14). The stamp duty is capped to a maximum of EUR 170,860.14 per agreement/contract. Moreover, if more than one document/agreement is entered into which relate to the same matter (whether concurrently or at different times), stamp duty is levied only in respect of the principal/primary document. The remaining (secondary) documents are subject to stamp duty at the fixed amount of EUR 1.71 each.

The above obligation arises irrespective of whether the instrument is executed in Cyprus or abroad. If the instruments are executed outside Cyprus, payment of the stamp duty may be deferred until the instruments are first brought into Cyprus, whereupon they shall be deemed, for the purpose of the payment of stamp duty, to have been first executed on the date of their receipt in Cyprus.

With regard to loans to be provided by the Company to its foreign subsidiaries, the Commissioner of Stamp Duty is usually expected to be satisfied that the loan agreements should not be subject to stamp duty in Cyprus provided the agreement is governed by a foreign law and is to be submitted to the courts of a foreign jurisdiction, the contract is executed outside of Cyprus and neither the loan asset nor the shares of a Cypriot company are to be secured by way of a registered charge, either in Cyprus or abroad.

United States Federal Income Tax Considerations

The following discussion is a general summary based on present law of certain US federal income tax consequences of the acquisition, ownership and disposition of the New GDRs. The summary is not a complete description of all tax considerations that may be relevant. It applies only to US Holders (as defined below) that acquire New GDRs in the Offering, hold New GDRs as capital assets for US federal income tax purposes and use the US Dollar as their functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark to market, investors liable for the alternative minimum tax, US expatriates, investors that directly, indirectly or constructively own 10 per cent. or more of our voting stock, investors that are resident or ordinarily resident in or have a permanent establishment outside the US or investors that hold the New GDRs as part of a straddle, hedging, conversion or other integrated transaction. It also does not address US state and local considerations.

THE STATEMENTS ABOUT US FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE NEW GDRS. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE NEW GDRS UNDER THE LAWS OF CYPRUS, RUSSIA, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS, AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, "US Holder" means a beneficial owner of New GDRs that, for US federal income tax purposes, is (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the control of one or more US persons and the primary supervision of a US court or a trust that has elected to be treated as a US Person.

The US federal income tax treatment of a partner in a partnership that holds New GDRs will depend on the status of the partner and the activities of the partnership. Partners in a prospective purchaser that is a partnership should consult their own tax advisors regarding the specific US federal income tax consequences to them of the partnership's acquisition, ownership and disposition of the New GDRs.

Generally, holders of New GDRs will be treated for US federal income tax purposes as holding Ordinary Shares represented by the New GDRs. No gain or loss will be recognised upon an exchange of Ordinary Shares for New GDRs or an exchange of New GDRs for Ordinary Shares, provided the Depositary has not taken any action inconsistent with the Deposit Agreement or the US Holder's ownership of the underlying shares.

Dividends

Subject to the passive foreign investment company (***PFIC***) rules discussed below, dividends on the New GDRs should be included in a US Holder's gross income as ordinary income from foreign sources. Dividends will not be eligible for the dividends received deduction generally allowable to US corporations or for the preferential tax rate applicable to qualified dividend income of individuals and certain other non-corporate taxpayers. Dividends paid in currency other than US Dollars will be includable in income in a US Dollar amount based on the exchange rate in effect on the date of receipt by the Depositary whether or not the payment is converted into US Dollars at that time. A US Holder will have a basis in the currency received equal to the US Dollar value on the date of receipt by the Depositary. Any gain or loss on a subsequent conversion or other disposition of the currency for a different US Dollar amount generally will be US source ordinary income or loss. Dividends received by non-corporate US Holders in taxable years beginning after December 31, 2012 generally will be includable in computing net investment income of such US Holder for purposes of the Medicare surtax.

Disposition

Subject to the PFIC rules discussed below, a US Holder will recognise gain or loss when it disposes of the New GDRs in an amount equal to any difference between the US Dollar value of the amount realised and its adjusted tax basis in the New GDRs. A US Holder's adjusted tax basis in the New GDRs generally will be its US Dollar cost. Capital gain or loss generally will be treated as arising from sources within the United States for foreign tax credit limitation purposes. The capital gain or loss will be long-term capital gain or loss if a US Holder has held the New GDRs for more than one year. Deductions for capital losses are subject to limitations. Gains realised by non-corporate US Holders in taxable years beginning after December 31, 2012 generally will be includable in computing net investment income of such US Holder for purposes of the Medicare surtax.

Passive foreign investment company

The Company believes it is not, and is not likely to become, a PFIC for US federal income tax purposes. A non-US corporation is a PFIC in any taxable year in which, after taking into account the income and assets of subsidiaries in which the non-US corporation owns at least a 25 per cent. interest, either (i) at least 75 per cent. of its gross income is passive income (such as dividends, interest, rents, royalties and the excess of gains over losses from the disposition of assets that produce passive income) or (ii) at least 50 per cent. of the average quarterly value of its assets consists of assets producing or held to produce passive income. Since the determination whether the Company is or has become a PFIC must be made on an annual basis, the Company's status could change depending upon (among other things) the quarterly market value of the Company's shares and changes in the Company's activities and assets (including income and assets of 25 per cent. or more owned subsidiaries). Accordingly, no assurance can be given that the Company will not be a PFIC in the current or any future year or that the US Internal Revenue Service (***IRS***) will not challenge any determination concerning its PFIC status. If the Company were a PFIC in any year during which a US Holder owns New GDRs, the US Holder would be subject in that and subsequent years to additional taxes on distributions exceeding 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period) and on any gain from the disposition of the New GDRs (regardless of whether the Company continued to be a PFIC) and also would be subject to additional tax form filing requirements. US Holders should consult their own tax advisors concerning the Company's possible PFIC status and the consequences to them if the Company were a PFIC for any taxable year.

Investor reporting requirements

Certain US Holders are required to report to the IRS information with respect to their investment in the New GDRs not held through an account with a financial institution. Investors who fail to report required information could become subject to substantial penalties. Prospective investors are encouraged to consult with their own tax advisors regarding information reporting requirements with respect to their investment in the New GDRs.

Information reporting and backup withholding

Dividends on and proceeds from the sale or other disposition of the New GDRs that are made within the United States or through certain US-related financial intermediaries may be reported to the IRS unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US Holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption. A US Holder can claim a credit against its US federal income tax liability for amounts withheld under the backup withholding rules, and a US Holder can claim a refund for amounts in excess of its tax liability if it provides the required information to the IRS. Each prospective purchaser should consult its own tax advisor about qualifying for exemption from backup withholding.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR

SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NEW GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice as of the date of this Offering Memorandum, both of which are subject to change, possibly with retroactive effect. This summary only covers the principal UK tax consequences for the absolute beneficial owners of New GDRs (and any dividends paid in respect of them), in circumstances where the dividends paid are regarded for UK tax purposes as those persons' own income, and not the income of some other person, who are resident, (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes and who are not resident in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of New GDRs is connected (***UK holders***). In addition, this summary: (a) only addresses the tax consequences for UK holders who hold the New GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (b) does not address the tax consequences for UK holders that are banks, financial institutions, insurance companies, collective investment schemes or persons connected (other than by reason of holding the New GDRs) with the Company; (c) assumes that the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10 per cent. or more of the Ordinary Shares or voting power, rights to profit or capital of the Company; (d) assumes that there will be no register in the UK in respect of any interest in the New GDRs or in the underlying Ordinary Shares; (e) assumes that the underlying Ordinary Shares and the New GDRs will not be held by, or issued, as applicable, by a depositary incorporated in the UK; (f) assumes that neither the New GDRs nor the underlying Ordinary Shares will be paired with shares issued by a company incorporated in the UK; (g) assumes that the UK holder of New GDRs is, for UK tax purposes, beneficially entitled to the underlying Ordinary Shares and to dividends on those Ordinary Shares; (h) assumes that the UK holder has not (and is not deemed to have) acquired the New GDRs by virtue of an office or employment; (j) assumes that the Company is not resident for tax purposes in the UK; and (k) assumes that an electronic book-entry settlement system is available in respect of the New GDRs.

THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR UK HOLDER. POTENTIAL INVESTORS SHOULD SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, SPECIFICALLY, THE CONSEQUENCES UNDER UK LAW AND HM REVENUE & CUSTOMS PRACTICE, OF ACQUISITION, OWNERSHIP AND DISPOSITION OF NEW GDRS IN THEIR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING THEIR OWN PROFESSIONAL TAX ADVISORS.

Taxation of dividends

Income tax and corporation tax

Withholding tax

Dividend payments in respect of the New GDRs should not be subject to UK withholding tax.

UK holders are referred to the statements regarding Cyprus tax in *"—Cyprus Tax Considerations—Taxation of income and gains of the New GDR holders—Dividends to be received by the New GDR holders"*. The following paragraphs proceed on the basis that no withholding tax is levied in Cyprus on dividend payments in respect of the New GDRs.

Individual UK holders of New GDRs

Dividends received by individual UK holders will be subject to UK income tax. This is charged on the gross amount of any dividend paid (***gross dividend***) as increased for any UK tax credit available as described below. An individual UK holder who is resident for tax purposes in the UK and who receives a dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the gross dividend, which is equivalent to 10 per cent. of the aggregate of the dividend and the tax credit. The UK tax credit can generally be set against the individual's liability to income tax for the tax year in which the dividend is paid.

An individual UK holder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the aggregate of the gross dividend and the UK tax credit at the rate of 10 per cent., so that the tax credit will satisfy the income tax liability of such a holder in full.

An individual UK holder who is subject to income tax at the higher rate will be liable to income tax on the aggregate of the gross dividend and the UK tax credit at the rate of 32.5 per cent. to the extent that such sum, when treated as the top slice of that holder's income, falls above the threshold for higher rate income tax (which is £34,370 in the 2012/2013 tax year). So, for example, a gross dividend of £90 will carry a tax credit of £10 and the UK income tax payable on the dividend by an individual UK holder of New GDRs who is subject to income tax at the higher rate would be 32.5 per cent. of £100, namely £32.50, less the tax credit of £10, leaving a net tax charge of £22.50.

An individual UK holder who is subject to income tax at the additional rate will be liable to income tax on the aggregate of the gross dividend and the UK tax credit at the rate of 42.5 per cent. (reducing to 37.5 per cent. from 6 April 2013) to the extent that such sum, when treated as the top slice of that holder's income, falls above the threshold for additional rate income tax (which is £150,000 in the 2012/2013 tax year). So, for example, a gross dividend of £90 will carry a tax credit of £10 and the UK income tax payable on the dividend by an individual UK holder of New GDRs who is subject to income tax at the additional rate would be 42.5 per cent. of £100 (reducing to 37.5 per cent. from 6 April 2013), namely £42.50 (or £37.50 from 6 April 2013), less the tax credit of £10, leaving a net tax charge of £32.50 (or £27.50 from 6 April 2013).

Where the tax credit exceeds the holder's tax liability the holder cannot generally claim repayment of the UK tax credit from HM Revenue & Customs.

Corporate UK holders of New GDRs

Where a corporate UK holder is within the charge to corporation tax, it will be subject to corporation tax on the actual amount of any dividend paid on the New GDRs, unless (subject to special rules for such UK holders that are small companies) the dividend falls within an exempt class and certain other conditions are met. Although it is likely that most dividends paid on the New GDRs to UK holders within the charge to UK corporation tax would fall within one or more of the classes of dividend qualifying for exemption from corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules.

Provision of information

Persons in the United Kingdom paying "foreign dividends" to, or receiving "foreign dividends" on behalf of, an individual may be required to provide certain information to HM Revenue & Customs regarding the identity of the payee or the person entitled to the "foreign dividend" and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the New GDRs may constitute "foreign dividends" for this purpose.

HMRC view on dividends paid from certain sources

The statements contained above under "*Taxation of dividends*" reflect the Company's understanding of the correct interpretation of current UK tax law. However, HMRC's views in relation to the treatment of certain types of distribution received by UK resident corporate and UK resident individual shareholders remain currently unclear. As a result, there is a possibility that HMRC may seek to argue that certain distributions which are not paid from retained earnings (e.g. distributions made out of share premium or capital reserves) should not be treated as income distributions, but are instead within the charge to tax on chargeable gains. In light of this uncertainty, prospective investors are advised to consult their own professional advisers in relation to the implications of any distributions by the Company otherwise than out of retained earnings.

Taxation of disposals

UK holders are referred to the statements regarding Cyprus tax in *"—Cyprus Tax Considerations—Taxation of income and gains of the New GDR holders—Gains from disposal of New GDRs by the New GDR holders"*. The following paragraphs proceed on the basis that no withholding tax is levied in Cyprus on disposal of GDRs.

The disposal or deemed disposal of New GDRs by a UK holder may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK holder's circumstances and subject to any available exemption or relief. In the case of a corporate UK holder indexation allowance may be available to reduce or eliminate a chargeable gain, but not generate or increase an allowable loss. In the case of an individual UK holder indexation allowance is not available and chargeable gains are generally liable to capital gains tax at the applicable rate. An individual UK holder is currently entitled to an annual exemption from UK tax on chargeable gains up to £10,600 (in the 2012/2013 tax year).

In addition, UK holders who are individuals and who dispose of their New GDRs while they are temporarily non-resident (i.e. not resident and not ordinarily resident) may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK if (broadly speaking) the period of non-residence is less than five tax years. Any gains or losses in respect of currency fluctuations over the period of holding the New GDRs would also be brought into account on the disposal.

Stamp duty and stamp duty reserve tax

No UK stamp duty or stamp duty reserve tax should be payable on (i) the issue of the New GDRs, (ii) the delivery of the New GDRs into DTC, Euroclear or Clearstream, or (iii) any dealings in the New GDRs once they are delivered into such clearance systems, where such dealings are effected in electronic book-entry form in accordance with the procedures of DTC, Euroclear or Clearstream (as applicable) and not by written instrument of transfer.

No stamp duty reserve tax should be payable in respect of any agreement to transfer the New GDRs.

Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, the New GDRs is neither (i) executed in the UK, nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK stamp duty should be payable on such document.

Even if a document effecting a transfer of, or containing an agreement to transfer an equitable interest in, the New GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK stamp duty on such document unless the document is required for any purposes in the UK. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.

Inheritance tax

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of New GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

UK holders should consult an appropriate professional adviser if they make a gift or transfer of value of any kind or intend to hold the New GDRs through trust arrangements.

PLAN OF DISTRIBUTION

The Offering comprises (i) an offering of New GDRs outside the United States in reliance on Regulation S and (ii) an offering of New GDRs within the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

Under the terms of, and subject to, the conditions contained in an underwriting agreement (the ***Underwriting Agreement***) dated 12 July 2012 entered into among the Company, the Selling Shareholder, the Joint Bookrunners and Deutsche Bank Limited, the Joint Bookrunners have severally agreed to procure purchasers for, or to themselves purchase, at the Offer Price, the number of New GDRs in the aggregate amount as indicated below. The Company and the Selling Shareholder have agreed to make available, at the Offer Price, to the Joint Bookrunners, the following number of New GDRs for such purpose (excluding the Over-Allotment Option):

Joint Bookrunners	Number of New GDRs
Deutsche Bank AG, London Branch	7,686,819
J.P. Morgan Securities plc	6,548,031
Morgan Stanley & Co. International plc	6,548,031
SIB (Cyprus) Limited	7,686,819
	28,469,700

The total expenses payable by the Company for the Offering, other than the Joint Bookrunners' fees and commissions, are estimated to be up to USD 4.1 million.

The Joint Bookrunners will be soliciting non-binding indications of interest in acquiring New GDRs in the Offering from prospective investors. Prospective investors will be required to specify the number of New GDRs they would be prepared to acquire at the Offer Price. This process is known as book-building. New GDRs allocated under the Offering, following the determination of the Offer Price, will be fully underwritten by the Joint Bookrunners as described in this section. Allocations will be determined by the Joint Bookrunners after non-binding indications of interest from prospective investors have been received in the book-building process.

All New GDRs sold in the Offering will be sold at the Offer Price. The Offer Price for the New GDRs has been determined by agreement between the Company, the Selling Shareholder and the Joint Bookrunners. A number of factors may be considered in determining the Offer Price and the basis of allocation under the Offering, including the level and nature of demand for the New GDRs. The Offer Price may be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated) from persons (including market makers and fund managers) connected with the Joint Bookrunners.

Members of management and the Board of Directors purchased a total of 235,115 GDRs in the Offering.

The FSA in its capacity as competent authority under the FSMA has granted admission to the official list maintained by the FSA and to the regulated main market of the London Stock Exchange of up to 158,135,533 GDRs to be issued from time to time against the deposit of Ordinary Shares with the Depositary, of which 57,856,998 have been issued. The GDRs trade, and the New GDRs will trade, under the symbol "GLTR".

The Underwriting Agreement and related arrangements contain the following provisions, among others:

- The Selling Shareholder has granted an Over-Allotment Option to the Joint Bookrunners to acquire an additional 3,030,300 New GDRs sold in the Offering at the Offer Price for the purpose of covering over-allotments and other short positions, if any, in connection with the Offering. The Over-Allotment Option is exercisable by the Joint Bookrunners on one or more occasions upon written notice to the Selling Shareholder at any time up to and including the thirtieth day following the announcement of the Offer Price. If the Joint Bookrunners exercise the Over-Allotment Option, the Selling Shareholder will be obligated to sell and each Joint Bookrunner will be severally obligated, subject to the conditions contained in the Underwriting Agreement, to purchase, a number of additional New GDRs proportionate to that Joint Bookrunner's initial amount indicated in the table above.

- The Joint Bookrunners will receive fees and commissions of approximately USD 8.2 million, assuming the Over-Allotment Option is not exercised, or approximately USD 9.1 million assuming the Over-Allotment Option is exercised in full. In addition, the Joint Bookrunners may receive, at the sole discretion of the Company and the Selling Shareholder, an additional fee of up to 0.75 per cent. of the gross proceeds of the Offering, including in respect of any New GDRs purchased by the Joint Bookrunners pursuant to the Over-Allotment Option. In addition, the Company has agreed in the Underwriting Agreement to reimburse the Joint Bookrunners for certain of their expenses in connection with the Offering, including, but not limited to, fees, expenses and disbursements of their legal counsel and out of pocket and other expenses.

The Over-Allotment Option is granted to the Joint Bookrunners as part of the Underwriting Agreement for no additional consideration to the Selling Shareholder from the Joint Bookrunners.

The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties in the Underwriting Agreement. The Joint Bookrunners may terminate the Underwriting Agreement prior to the closing of the Offering in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the Group's condition, including its financial condition, business affairs and business prospects, and certain changes in financial, political or economic conditions. If any of the above mentioned conditions are not satisfied or waived or the Underwriting Agreement is terminated prior to the closing of the Offering, then the Offering will lapse.

The Company and the Selling Shareholder have given certain representations and warranties to the Joint Bookrunners in relation to the Ordinary Shares and the New GDRs. The Company has given certain representations and warranties to the Joint Bookrunners in relation to the Group's business, and the contents of this Offering Memorandum.

The Company and the Selling Shareholder have given customary indemnities to the Joint Bookrunners in connection with the Offering.

If a Joint Bookrunner defaults, the Underwriting Agreement provides that in certain circumstances, the purchase commitments of the non-defaulting Joint Bookrunner may be increased or the Underwriting Agreement may be terminated.

The Company, the Selling Shareholder, EIL and Litten have each agreed that neither it, nor any of its subsidiaries, nor any person acting on its or their behalf will, from the date hereof until 180 days after the Closing Date or, if later, the Over-Allotment Option closing date, without the prior written consent of the Joint Bookrunners:

(i) issue (in the case of the Company only), offer, sell, lend, mortgage, assign, pledge, charge, contract to sell, sell or grant any option to contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and option or global depositary receipts representing the right to receive any such securities; or

(ii) enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of the Ordinary Shares; or

(iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of the GDRs, Ordinary Shares or such other securities, in cash or otherwise, subject to certain exceptions, including in relation to the Offering, the Over-Allotment Option and any GDRs lent by the Selling Shareholder in connection therewith or, in the case of the Selling Shareholder, EIL and Litten, transfers to their subsidiaries, ultimate beneficial owners or entities controlled separately by any one of them or by all or any number of them provided that the transferees agree to transfer restrictions substantially in the form of clauses (i) through (iii) above.

In connection with the Offering, Deutsche Bank AG, London Branch (the ***Stabilising Manager***) or any agent or other person acting for the Stabilising Manager, may over-allot or effect transactions intended to enable it to satisfy any over-allocations or which stabilise, maintain, support or otherwise affect the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter market, stock exchange or otherwise. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days following the announcement of the Offer Price. Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering.

In accordance with applicable regulations the Joint Bookrunners may also sell New GDRs in excess of their Over-Allotment Option up to a maximum of 5 per cent. of the Offering, creating a naked short position. The Joint Bookrunners must close out any naked short position by purchasing New GDRs in the open market.

In connection with the Offering, each of the Joint Bookrunners and any affiliate acting as an investor for its own account may take up the New GDRs offered in the Offering and in that capacity may retain, purchase or sell the New GDRs for its own account and may offer or sell such securities otherwise than in connection with the Offering. The Joint Bookrunners do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Each of the Joint Bookrunners and their respective affiliates has engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Group and with the Company's principal shareholders, TIHL and EIL. The Joint Bookrunners receive and in the future will receive customary fees and commissions for these transactions and services.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

The distribution of this document and the Offering in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the New GDRs, or possession or distribution of this Offering Memorandum or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the New GDRs may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisement in connection with the New GDRs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Offering Memorandum comes should inform themselves about and observe any restrictions on the distribution of this Offering Memorandum and the offer, subscription and sale of the New GDRs offered in the Offering, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Offering Memorandum does not constitute an offer to subscribe for or buy any of the New GDRs offered in the Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Canada and Australia

The relevant clearances have not been, and will not be, obtained from the Securities Commission of any province or territory of Canada; no document in relation to the Offering has been, or will be lodged with, or registered by, The Australian Securities and Investments Commission in relation to the Offering or the New GDRs. Accordingly, subject to certain exceptions, the New GDRs may not, directly or indirectly, be offered or sold within Canada or Australia or offered or sold to a resident of Canada or Australia.

Cyprus

Each Joint Bookrunner has represented, warranted and agreed that:

(i) it has not offered or sold and will not offer or sell any New GDRs, except in conformity with the provisions of the Public Offer and Prospectus Law, Law 114(I)/2005 (the ***Cyprus Prospectus Law***) and the provisions of the Cyprus Companies Law, Cap. 113 (as amended);

(ii) it has not and will not offer or sell any New GDRs other than in compliance with the provisions of the Investment Services and Activities and Regulated Markets Law, Law 144(I)/2007 (the ***Cyprus Investment Services Law***);

(iii) it will not be providing from or within Cyprus any "investment services", "investment activities" and "non-core services" (as such terms are defined in the Cyprus Investment Services Law, in relation to the New GDRs or will be otherwise providing investment services, investment activities and non-core services to residents or persons domiciled in Cyprus. Each Joint Bookrunner has represented, warranted and agreed that it will not be concluding in Cyprus any transaction relating to such investment services, investment activities and non-core services in contravention of the Cyprus Investment Services Law and/or applicable regulations adopted pursuant thereto or in relation thereto.

Japan

The GDRs have not been and will not be registered in Japan pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") in reliance upon the exemption from the registration requirements since this Offering constitutes a combination of (i) a small number private placement as provided for in "ha" of Article 2, Paragraph 3, Item 2 of the FIEA and (ii) a private placement to qualified institutional investors only as provided for in "i" of Article 2, Paragraph 3, Item 2 of the FIEA. A transferor of the GDRs shall not transfer or resell them except where a transferee is a qualified institutional investor under Article 10 of the Cabinet Office

Ordinance concerning Definitions provided in Article 2 of the FIEA (the Ministry of Finance Ordinance No. 14 of 1993, as amended).

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a ***Relevant Member State***), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the ***Relevant Implementation Date***) no offer to the public of GDRs, which are the subject of the offering contemplated by the Prospectus, has been made or will be made in that Relevant Member State, except that with effect from and including the Relevant Implementation Date, an offer of such GDRs may be made to the public in that Relevant Member State:

(i) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive (as defined below), 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Bookrunners for any such offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of GDRs shall result in a requirement for the publication by the Company or any Joint Bookrunner of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this selling restriction, the expression an "offer to the public" in relation to any GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the GDRs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the "2010 PD Amending Directive" means Directive 2010/73/EU.

Russian Federation

Neither the New GDRs nor this Offering Memorandum have been, or are intended to be, registered with the FSFM or any other state bodies that may from time to time be responsible for such registration. Each Joint Bookrunner has agreed that the New GDRs will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located in the Russian Federation unless and to the extent otherwise permitted under Russian law; it being understood and agreed that the Joint Bookrunners may distribute this Offering Memorandum in the Russian Federation to "qualified investors" (as defined in Russian law) in a manner that does not constitute an advertisement (as defined in Russian law) of the New GDRs and may sell the New GDRs to "qualified investors" (as defined in Russian law) in a manner that does not constitute a "placement" or a "public circulation" of the New GDRs in the Russian Federation (as defined in Russian law).

United Kingdom

Each Joint Bookrunner has represented, warranted and agreed that:

(i) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any New GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New GDRs in, from or otherwise involving the United Kingdom.

United States

The New GDRs offered in the Offering have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The Joint Bookrunners propose (i) to offer the New GDRs to institutional investors outside the United States in accordance with Regulation S under the Securities Act and (ii) to offer the New GDRs in the United States only to qualified institutional buyers as defined under and in accordance with Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the New GDRs into or within the United States by a dealer, whether or not such dealer is participating in the Offering, may violate the registration and prospectus delivery requirements of the Securities Act if such offer or sale is made other than in accordance with Rule 144A.

TRANSFER RESTRICTIONS

Rule 144A GDRs

Each purchaser of New GDRs located in the United States, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged as follows:

1. The purchaser (i) is a QIB as that term is defined by Rule 144A under the Securities Act, (ii) is aware that, and each beneficial owner of such New GDRs has been advised that, the sale to it is being made in reliance on Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, (iii) is acquiring such New GDRs for its own account or for the account of one or more QIBs and (iv) if it is acquiring such New GDRs for the account of one or more QIBs, has sole investment discretion with respect to each such account and has full power to make the acknowledgements, representations and agreements herein on behalf of each such account.

2. The purchaser is aware that the New GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act have not been and will not be registered under the Securities Act and are being offered in the United States only in transactions not involving any public offering in the United States and are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act (***Restricted Securities***).

3. In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the New GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act, such New GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the New GDRs purchased pursuant to Rule 144A under the Securities Act or another exemption from, or transaction not subject to, the registration requirements of the Securities Act will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

   THIS MASTER RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF GLOBALTRANS INVESTMENT PLC REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF GLOBALTRANS INVESTMENT PLC THAT THE GDRs AND THE SHARES CORRESPONDING HERETO MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM

REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE RESTRICTED SECURITIES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

4. For so long as Ordinary Shares are Restricted Securities, it will not deposit such Ordinary Shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.

5. The Company, the Selling Shareholder, the Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of the GDRs purchased pursuant to Rule 144A under the Securities Act may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Regulation S GDRs

Each purchaser of the New GDRs offered in reliance on Regulation S (the ***Regulation S GDRs***) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of New GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;

2. the purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;

3. any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs; and

4. the Company, the Selling Shareholder, the Joint Bookrunners and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

SETTLEMENT AND TRANSFER

Clearing And Settlement of New GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the New GDRs offered in the Offering and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the New GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant tax laws and regulations of the United States. See *"Taxation—United States Federal Income Tax Considerations"*.

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg are represented by a Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC are represented by a Master Rule 144A GDR registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

Global Clearance and Settlement Procedures

Initial settlement

The New GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in the New GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the New GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary market trading

For a description of the transfer restrictions relating to the GDRs, see *"Selling and Transfer Restrictions—Transfer Restrictions"*.

Trading between Euroclear and Clearstream, Luxembourg participants. Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants. Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in US Dollars, or free of payment, if payment is not effected in US Dollars. Where payment is not effected in US Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser. When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream, Luxembourg and represented by the Master Regulation S GDR.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser. When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Group, the Joint Bookrunners, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, NY 10286. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, NY 10286. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the principal office of the Depositary located at One Wall Street, New York, NY 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Group with respect to the laws of England, the United States and the Russian Federation by Freshfields Bruckhaus Deringer LLP and with respect to Cypriot law by Patrikios Pavlou & Associates LLC. Certain legal matters in connection with the Offering will be passed upon for the Joint Bookrunners with respect to the laws of England, the United States and the Russian Federation by Clifford Chance CIS Limited, and as to Cypriot law by Mouaimis & Mouaimis LLC.

INDEPENDENT AUDITORS

The Consolidated Financial Statements as at and for the year ended 31 December 2011 have been audited by PricewaterhouseCoopers Limited, independent auditors, as stated in their report (the ***Independent Auditor's Report***) appearing herein. The Consolidated Financial Statements as at and for the years ended 31 December 2010 and 2009 have been audited by PricewaterhouseCoopers Limited, as stated in their report incorporated by reference to this Offering Memorandum. See *"Presentation of Financial and Other Information—Incorporation by Reference"*. PricewaterhouseCoopers Limited have registered offices at City House, 6 Kariaskakis Street, CY-3032 Limassol, Cyprus. PricewaterhouseCoopers Limited is a member of the Institute of Certified Public Accountants of Cyprus.

With respect to the unaudited Interim Condensed Consolidated Financial Information included in this Offering Memorandum, PricewaterhouseCoopers Limited reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 6 July 2012 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The MIT Financial Statements as at and for the year ended 31 December 2011 have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, as stated in their report (the ***MIT Independent Auditor's Report***) appearing herein. ZAO PricewaterhouseCoopers Audit have registered offices at White Square Office Center, 10 Butyrsky Val, Moscow Russia 125047, Russian Federation. ZAO PricewaterhouseCoopers Audit is a member of the Audit Chamber of Russia (*Auditorskaya Palata Rossii*).

TECHNICAL GLOSSARY

The following technical terms are used in this Offering Memorandum:

- ***block train*** means a train comprising only rolling stock operated by a single company which is bound for the same destination;
- ***carrier*** means a company or organisation which assumes an obligation to move goods from one point to another on the rail network;
- ***destination management*** means the process of managing cargo destinations and routes by matching customer orders for transportation of cargo bound for certain destinations with those for transportation of cargo originating in such destinations, or in other locations which can be efficiently reached from such destinations, so as to reduce the distance travelled by rolling stock without carrying the cargo of a paying customer;
- ***dwell time*** means the time a railcar spends waiting at the origin or destination to be loaded or unloaded;
- ***Empty Run*** means movement of rolling stock without cargo for the whole or a substantial part of the journey;
- ***ferrous metals*** means metals that consist primarily of iron;
- ***flat car*** means a type of rolling stock with a flat top and is primarily used to carry containers;
- ***Freight Rail Turnover*** is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km;
- ***gondola (open top) car*** means a type of rolling stock with an open top and low sides used for transporting a wide variety of cargoes;
- ***hopper car*** means a type of rolling stock equipped to carry dry cargoes such as grain and cement and has several sub-categories;
- ***locomotive*** means a self-propelled vehicle for traction, that is used for hauling cars along tracks;
- ***rail tank car*** means a type of rolling stock used for transporting liquids, such as oil products and oil;
- ***route loop*** means a combination of routes where the destination of one route is the point of origin for another route and so on to the original point of origin. This concept is used to minimise rolling stock journeys without cargo to return rolling stock from cargo destinations (see also Empty Run);
- ***route optimisation*** means the process of plotting routes so as to create "route loops" (see *"route loops"*);
- ***scrap metal*** means iron containing waste material (mainly industrial or household waste) that generally is re-melted and recast into new steel;
- ***steam jacket rail tank car*** means rail tank cars specially equipped with a jacket which is filled with hot steam to allow efficient offloading during the winter time; and
- ***tonnes*** means metric tonnes (equivalent to 1,000 kilograms).

ADDITIONAL INFORMATION

1. The Company entering into the Underwriting Agreement was duly authorised by the Board of Directors on 11 July 2012, in accordance with the Company's constitutional documents. The Selling Shareholder duly approved and authorised the transfer and sale of the Ordinary Shares to be sold by it in the Offering, and the Selling Shareholder entering into the Underwriting Agreement and a securities lending agreement on 11 July 2012, in accordance with its constitutional documents.

2. There has been no significant change in the Group's financial or trading position since 31 March 2012, other than as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

3. From time to time the Group is involved in legal proceedings arising in the ordinary course of business. However, other than the litigation described on page F-85 under the heading "Legal proceedings" in Note 28 to the Consolidated Financial Statements for the year ended 31 December 2011 and F-19 under Note 18 to the Interim Condensed Consolidated Financial Information for the three months ended 31 March 2012, there are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Group is aware, during the 12 months preceding the date of this Offering Memorandum which may have, or have had in the recent past significant effects on the Group's financial position or profitability.

4. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

5. Copies in English of the following documents may be inspected at the offices of Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year from publication of the Offering Memorandum:

   - the Company's articles and memorandum of association in effect upon the date of the Offering Memorandum;
   - the Company's audited annual consolidated EU IFRS financial statements as at and for the years ended 31 December 2011, 2010 and 2009;
   - the Company's unaudited condensed consolidated interim (EU IFRS) financial information as at and for the three months ended 31 March 2012;
   - MIT's audited IFRS financial statements as at and for the years ended 31 December 2011 with 2010 comparatives; and
   - the Deposit Agreement.

6. The Group prepares consolidated annual and interim financial statements in accordance with EU IFRS.

7. There are no temporary documents of title issued in respect of the GDRs.

8. The following table sets forth the registered offices of the Group's material subsidiaries:

Name	Country of incorporation	Beneficial ownership/voting rights	Registered Office
New Forwarding Company OJSC	Russia	100%	16/15 Spartakovskaya Square, build. 6 Moscow 105082 Russia
Sevtekhnotrans LLC	Russia	100%	10 Testovskaya Street Moscow 123317 Russia
BaltTransServis LLC	Russia	60% (wholly owned subsidiary of Ultracare Holdings Limited)	115 Metallistov Avenue St. Petersburg 195197 Russia
RemTransServis LLC	Russia	59.4%	2 Passazhirskaya Street, Rybinsk Yaroslavl Region 152931 Russia
Ultracare Holdings Limited	Cyprus	60%	Omirou 20, Agios Nikolaos, CY-3095 Limassol, Cyprus
Ingulana Holdings Limited	Cyprus	60%	1 Avlonos, Maria House 5th Floor CY-1075 Nicosia Cyprus
AS Spacecom	Estonia	65.25%	Mõisa 4 13522 Tallinn Estonia
Ekolinja Oy	Finland	65.25%	Talvaskallionte 4 B, FI-00600 Helsinki, Finland
AS Spacecom Trans	Estonia	65%	Mõisa 4 13522 Tallinn Estonia
Ukrainian New Forwarding Company LLC	Ukraine	100%	12 Chkalova Street Dnepropetrovsk 49044 Ukraine
Metalloinvesttrans LLC	Russia	100%	25 Lenin Street, Kyrskaya Region, Zheleznogorsk 307170 Russia

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Globaltrans Investment PLC

Consolidated interim financial information (unaudited)
for the three months ended 31 March 2012

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Condensed consolidated interim financial information (unaudited)
for the three months ended 31 March 2012

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE THREE MONTHS ENDED 31 MARCH 2012

	Note	2012	2011
		US$'000	US$'000
Revenue	7	**452,551**	440,903
Cost of sales	8	**(300,151)**	(317,599)
Gross profit		**152,400**	123,304
Selling and marketing costs	8	**(839)**	(694)
Administrative expenses	8	**(17,991)**	(17,785)
Other gains—net		**36**	879
Operating profit		**133,606**	105,704
Finance income	9	**(1,049)**	(4,978)
Finance costs	9	**(7,290)**	(3,620)
Finance costs—net		**(8,339)**	(8,598)
Share of profit of associate		**14**	126
Profit before income tax		**125,281**	97,232
Income tax expense	14	**(30,718)**	(21,539)
Profit for the period		**94,563**	75,693
Attributable to:			
Owners of the Company		**80,017**	61,355
Non-controlling interests		**14,546**	14,338
		94,563	75,693
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the period (expressed in US$ per share)	15	**0.52**	0.39

The notes on pages F-9 to F-22 are an integral part of these interim condensed consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2012

	2012	2011
	US$'000	US$'000
Profit for the period	**94,563**	75,693
Other comprehensive income:		
Currency translation differences	**84,974**	64,097
Other comprehensive income for the period, net of tax	**84,974**	64,097
Total comprehensive income for the period	**179,537**	139,790
Total comprehensive income attributable to:		
—owners of the Company	**153,362**	117,699
—non-controlling interests	**26,175**	22,091
	179,537	139,790

Items in the statement above are disclosed net of tax. There is no income tax relating to the components of other comprehensive income above.

The notes on pages F-9 to F-22 are an integral part of these interim condensed consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED INTERIM BALANCE SHEET

AT 31 MARCH 2012

	Note	31-Mar-2012	31-Dec-2011
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**1,398,890**	1,106,171
Intangible assets		**120**	150
Investment in associate		**1,919**	1,845
Trade and other receivables	11	**83,045**	75,777
Total non-current assets		**1,483,974**	1,183,943
Current assets			
Inventories		**9,539**	8,002
Trade and other receivables	11	**194,054**	150,955
Current income tax assets		**2,921**	4,191
Cash and cash equivalents		**346,247**	120,757
Total current assets		**552,761**	283,905
Total Assets		**2,036,735**	1,467,848
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	17	**15,814**	15,814
Share premium	17	**621,227**	621,227
Treasury shares	17	**(43,173)**	—
Common control transaction reserve		**(368,476)**	(368,476)
Translation reserve		**(66,442)**	(139,787)
Capital contribution		**90,000**	90,000
Retained earnings		**719,300**	639,283
Total equity attributable to the owners of the Company		**968,250**	858,061
Non-controlling interests		**153,329**	130,994
Total equity		**1,121,579**	989,055
Non-current liabilities			
Borrowings	13	**594,706**	208,381
Deferred tax liabilities		**46,585**	35,247
Total non-current liabilities		**641,291**	243,628
Current liabilities			
Borrowings	13	**214,525**	170,731
Trade and other payables	12	**58,250**	63,959
Current tax liabilities		**1,090**	475
Total current liabilities		**273,865**	235,165
Total Liabilities		**915,156**	478,793
Total Equity and Liabilities		**2,036,735**	1,467,848

The notes on pages F-9 to F-22 are an integral part of these interim condensed consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2012

	Note	Attributable to the owners of the Company									
		Share capital	Share premium	Treasury shares	Common control transaction reserve	Translation reserve	Capital contribution	Retained earnings	Total	Non-controlling interests	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2011		**15,814**	**621,227**	**—**	**(368,476)**	**(90,281)**	**90,000**	**485,575**	**753,859**	**130,106**	**883,965**
Comprehensive income											
Profit for the period		—	—	—	—	—	—	61,355	61,355	14,338	75,693
Other comprehensive loss											
Currency translation differences		—	—	—	—	56,344	—	—	56,344	7,753	64,097
Total comprehensive income for the period ended 31 March 2011		—	—	—	—	56,344	—	61,355	117,699	22,091	139,790
Transactions with owners											
Interim dividend for 2011		—	—	—	—	—	—	—	—	(10,352)	(10,352)
Total transactions with owners		—	—	—	—	—	—	—	—	(10,352)	(10,352)
Balance at 31 March 2011		**15,814**	**621,227**	**—**	**(368,476)**	**(33,937)**	**90,000**	**546,930**	**871,558**	**141,845**	**1,013,403**
Balance at 1 January 2012		**15,814**	**621,227**	**—**	**(368,476)**	**(139,787)**	**90,000**	**639,283**	**858,061**	**130,994**	**989,055**
Comprehensive income											
Profit for the period		—	—	—	—	—	—	80,017	80,017	14,546	94,563
Other comprehensive income											
Currency translation differences		—	—	—	—	73,745	—	—	73,745	11,629	84,974
Total comprehensive income for the period ended 31 March 2012		—	—	—	—	73,745	—	80,017	153,362	26,175	179,537
Transactions with owners											
Interim dividend for 2012		—	—	—	—	—	—	—	—	(3,840)	(3,840)
Purchase of treasury shares	17	—	—	(43,173)	—	—	—		(43,173)	—	(43,173)
Total transactions with owners		—	—	(43,173)	—	—	—	—	(43,173)	(3,840)	(47,013)
Balance at 31 March 2012		**15,814**	**621,227**	**(43,173)**	**(368,476)**	**(66,442)**	**90,000**	**719,300**	**968,250**	**153,329**	**1,121,579**

The notes on pages F-9 to F-22 are an integral part of these interim condensed consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE THREE MONTHS ENDED 31 MARCH 2012

	Note	31-Mar-2012	31-Mar-2011
		US$'000	US$'000
Cash flows from operating activities			
Profit before tax		**125,281**	97,232
Adjustments for:			
Depreciation of property, plant and equipment	8	**19,379**	18,668
Amortisation of intangible assets	8	**44**	44
Loss/(gain) on sale of property, plant and equipment	8	**287**	(1,031)
Interest income	9	**(861)**	(1,447)
Interest expense	9	**11,361**	11,145
Share of profit of associate		**(14)**	(126)
Exchange (gains)/losses on finance income/cost	9	**(2,161)**	(1,626)
Finance cost on liability for minimum dividend distribution	9	**—**	526
Recognised deferred gain		**—**	(76)
		153,316	123,309
Changes in working capital:			
Inventories		**(764)**	1,182
Trade and other receivables		**(21,867)**	(4,605)
Trade and other payables		**(8,393)**	(2,424)
Cash generated from operations		**122,292**	117,462
Tax paid		**(20,766)**	(11,159)
Net cash from operating activities		**101,526**	106,303
Cash flows from investing activities			
Purchases of property, plant and equipment		**(220,868)**	(23,213)
Proceeds from disposal of property, plant and equipment		**749**	73
Interest received		**861**	715
Net cash used in investing activities		**(219,258)**	(22,425)
Cash flows from financing activities			
Proceeds from borrowings		**433,855**	36,058
Repayments of borrowings		**(30,580)**	(44,776)
Finance lease principal payments		**(11,074)**	(20,992)
Interest paid		**(10,500)**	(10,838)
Dividends paid to non-controlling interests in subsidiaries	16	**(3,840)**	(11,369)
Purchase of treasury shares	17	**(43,173)**	—
Fees paid on establishment of loan facilities		**(3,330)**	(78)
Net cash from/(used in) financing activities		**331,358**	(51,995)
Net increase in cash and cash equivalents		**213,626**	31,883
Exchange gains on cash and cash equivalents		**11,827**	6,653
Cash, cash equivalents and bank overdrafts at beginning of period		**119,720**	136,958
Cash, cash equivalents and bank overdrafts at end of period		**345,173**	175,494

The principal non cash transactions consist of finance leases as a lessee in the three months ended 31 March 2012 and 2011 (Note 13).

The notes on pages F-9 to F-22 are an integral part of these interim condensed consolidated financial statements.

1. GENERAL INFORMATION

Globaltrans Investment PLC (the "Company") and its subsidiaries (together the "Group") is the freight rail transportation group operating in Russia, the CIS countries and the Baltics.

The main business of the Group is the provision of freight rail transportation services with a focus on the transportation of key industrial freight including metallurgical cargoes, oil products and oil, coal and various construction materials. The Group is also engaged in operating lease of rolling stock.

The Company is a public limited company incorporated and domiciled in Cyprus in accordance with the provisions of the Companies Law, Cap. 113. The address of its registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 16/15 Spartakovskaya Sqr., Moscow, Russia.

Global Depositary Receipts representing ordinary shares of the Company are listed on the Main market of London Stock Exchange.

This condensed consolidated interim financial information was approved by the Board of Directors of the Company on 6 July 2012.

This condensed consolidated interim financial information has been reviewed, not audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the three months ended 31 March 2012 has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the Cyprus Companies Law, Cap. 113.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2011, as described in those annual consolidated financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected annual earnings for each tax jurisdiction and applied individually to the interim period pre-tax income of the relevant jurisdiction. Adjustments due to changes in estimates of prior year taxes are not taken into account in the calculation of the estimated average annual tax rate but are charged in full in the interim period in which it becomes probable that such adjustment is needed.

Payroll related taxes and contributions which are assessed on an annual basis are recognised in interim periods using an estimated annual effective payroll tax or contribution rate.

There are no new standards, amendments and interpretations that are effective for the first time for this interim period that have a material impact on the Group.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the provision for income and payroll related taxes and contributions (see Note 3) and the estimate of deferred tax on the unremitted earnings of subsidiaries (see Note 14).

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose 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 condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at and for the year ended 31 December 2011.

Liquidity risk

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.

Compared to the year end, there was increase in borrowings which resulted in increase in contractual cash outflows for financial liabilities. Refer to Note 13 (Borrowings) for information relating to the maturities of non-current borrowings and finance lease liabilities.

6. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors of the Group. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, management reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective management assesses the performance of each type of rolling stock at the level of adjusted revenue.

Adjusted revenue is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure tariff paid for the loaded trips of relating rolling stock. All other information provided to the Board is measured in a manner consistent with that in the financial statements.

Segment assets consist of rolling stock. Unallocated assets comprise all the assets of the Group except for rolling stock as included within segment assets.

	Open wagons	Tank cars	Other	Total
Three months ended 31 March 2012				
Total revenue—operator's services	149,208	271,784	5,460	426,452
Total revenue—operating lease	4,382	19,499	1,042	24,923
Inter-segment revenue	—	—	—	—
Revenue (from external customers)	153,590	291,283	6,502	451,375
less Infrastructure and locomotive tariffs: loaded trips	(346)	(146,907)	(447)	(147,700)
Adjusted revenue for reportable segments	**153,244**	**144,376**	**6,055**	**303,675**

6. SEGMENT INFORMATION (Continued)

	Open wagons	Tank cars	Other	Total
Three months ended 31 March 2011				
Total revenue—operator's services	151,460	265,483	5,672	422,615
Total revenue—operating lease	2,374	14,537	442	17,353
Inter-segment revenue	—	—	—	—
Revenue (from external customers)	153,834	280,020	6,114	439,968
less Infrastructure and locomotive tariffs: loaded trips	(1,219)	(149,543)	(499)	(151,261)
Adjusted revenue for reportable segments	**152,615**	**130,477**	**5,615**	**288,707**

	Open wagons	Tank cars	Other	Total
Additions to non-current assets (included in reportable segment assets)				
Three months ended 31 March 2012	168,774	40,305	—	209,079
Three months ended 31 March 2011	14,365	36,167	—	50,532
Reportable segment assets				
31 March 2012	860,115	479,496	31,527	1,371,138
31 December 2011	638,429	415,416	29,290	1,083,135
31 March 2011	684,303	485,450	34,723	1,204,476

A reconciliation of total adjusted revenue to total profit before income tax is provided as follows:

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Adjusted revenue for reportable segments	**303,675**	288,707
Other revenues	**1,176**	935
Total adjusted revenue	**304,851**	289,642
Cost of sales (excl. Infrastructure and locomotive tariffs—loaded trips, impairments, depreciation of property, plant and equipment and amortisation of intangible assets)	**(133,260)**	(147,889)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(18,722)**	(18,121)
Depreciation and amortisation	**(19,423)**	(18,712)
Reversal of impairment/(impairment charge)	**124**	(95)
Other gains—net	**36**	879
Operating profit	**133,606**	105,704
Finance income	**(1,049)**	(4,978)
Finance costs	**(7,290)**	(3,620)
Share of profit of associates	**14**	126
Profit before income tax	**125,281**	97,232

7. REVENUE

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Railway transportation—operators services (tariff borne by the Group)[1]	**252,726**	241,795
Railway transportation—operators services (tariff borne by the client)	**173,726**	180,820
Railway transportation—freight forwarding	**708**	678
Operating leasing of rolling stock	**24,923**	17,353
Other	**468**	257
	452,551	440,903

(1) Includes infrastructure and locomotive tariffs for loaded trips for the three months ended 31 March 2012 amounting to US$147,700 thousand (for the three months ended 31 March 2011: US$151,261 thousand)

8. EXPENSES BY NATURE

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Cost of sales		
Infrastructure and locomotive tariffs: loaded trips	**147,700**	151,261
Infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations	**74,600**	71,697
Operating lease rentals—rolling stock	**19,750**	42,192
Employee benefit expense	**4,486**	4,193
Repair and maintenance	**18,929**	17,157
Depreciation of property, plant and equipment	**19,147**	18,405
Amortisation of intangible assets	**44**	44
Fuel and spare parts—locomotives	**9,229**	7,985
Engagement of locomotive crews	**3,065**	3,053
Loss/(gain) on sale of property, plant and equipment	**296**	(997)
Other expenses	**2,905**	2,609
Total cost of sales	**300,151**	317,599

Decrease in 'Operating lease rentals—rolling stock' expenses during the three months ended 31 March 2012 compared to the same period of the previous year was caused by a significant decrease in the fleet

8. EXPENSES BY NATURE (Continued)

leased-in by the Group under operating leases as a large share of leased-in fleet was returned during the last months of 2011.

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**232**	263
Gain on sale of property, plant and equipment	**(9)**	(34)
Employee benefit expense	**8,043**	7,770
(Reversal of)/impairment charge of receivables	**(124)**	95
Operating lease rental—office	**1,255**	1,243
Auditors' remuneration	**452**	306
Legal, consulting and other professional fees	**727**	1,077
Advertising and promotion	**132**	81
Communication costs	**267**	255
Information services	**398**	381
Taxes (other than income tax and value added taxes)	**5,114**	4,975
Other expenses	**2,343**	2,067
Total selling, marketing and administrative expenses	**18,830**	18,479

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 10)	**19,379**	18,668
Amortisation of intangible assets	**44**	44
Loss/(gain) on sale of property, plant and equipment	**287**	(1,031)
Employee benefit expense	**12,529**	11,963
(Reversal of)/impairments charge for receivables	**(124)**	95
Operating lease rentals—rolling stock	**19,750**	42,192
Operating lease rentals—office	**1,255**	1,243
Repairs and maintenance	**18,929**	17,157
Fuel and spare parts—locomotives	**9,229**	7,985
Engagement of locomotive crews	**3,065**	3,053
Infrastructure and locomotive tariffs: loaded trips	**147,700**	151,261
Infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations	**74,600**	71,697
Auditors' remuneration	**452**	306
Legal, consulting and other professional fees	**727**	1,077
Advertising and promotion	**132**	81
Communication costs	**267**	255
Information services	**398**	381
Taxes (other than income tax and value added taxes)	**5,114**	4,975
Other expenses	**5,248**	4,676
Total cost of sales, selling and marketing costs and administrative expenses	**318,981**	336,078

9. FINANCE INCOME AND COSTS

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Interest expense:		
Bank borrowings	**(6,593)**	(7,026)
Finance leases	**(668)**	(1,730)
Non-convertible unsecured bonds	**(4,026)**	(2,271)
Other finance costs	**(74)**	(118)
Total interest expense	**(11,361)**	(11,145)
Net foreign exchange transaction gains on borrowings	**4,071**	8,051
Finance cost on liability for minimum dividend distribution	**—**	(526)
Finance costs	**(7,290)**	(3,620)
Interest income:		
Bank balances	**353**	65
Short term deposits	**508**	473
Finance leases—third parties	**—**	909
Total interest income	**861**	1,447
Net foreign exchange transaction losses on cash and cash equivalents and finance lease receivable	**(1,910)**	(6,425)
Finance income	**(1,049)**	(4,978)
Net finance costs	**(8,339)**	(8,598)

10. PROPERTY, PLANT AND EQUIPMENT

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Opening net book amount	**1,106,171**	1,112,212
Additions	**213,689**	54,191
Disposals	**(1,005)**	(3,283)
Depreciation charge (Note 8)	**(19,379)**	(18,668)
Currency translation differences	**99,414**	79,527
Closing net book amount	**1,398,890**	1,223,979

During the three months ended 31 March 2012 the Group has contracted 6,238 new rail cars of which 320 rail cars were delivered by 31 March 2012 (800 rail cars were delivered during the three months ended 31 March 2011).

During the three months ended 31 March 2012 the Group also received 2,666 rail cars which were contracted at the end of 2011. Refer to Note 21 (Subsequent events) for information on deliveries of rolling stock after 31 March 2012.

Acquisitions of rolling stock were financed with the use of bank loan facilities, finance lease arrangements and proceeds of the unsecured non-convertible bond issue (Note 13).

Strengthening of the Russian rouble exchange rate against the US Dollar during the three months of 2012 resulted in significant exchange differences on property, plant and equipment recognised in other comprehensive income.

11. TRADE AND OTHER RECEIVABLES

	As at 31-Mar-2012 US$'000	As at 31-Dec-2011 US$'000
Trade receivables—third parties	**56,592**	38,552
Trade receivables—related parties (Note 20)	**16,405**	15,129
Less: Provision for impairment of trade receivables	**(1,399)**	(1,467)
Trade receivables—net	**71,598**	52,214
Other receivables—third parties	**3,822**	1,427
Other receivables—related parties (Note 20)	**4**	33
Less: Provision for impairment of other receivables	**(502)**	(406)
Other receivables—net	**3,324**	1,054
Prepayments—related parties (Note 20)	**1,570**	2,848
Prepayments—third parties	**115,557**	116,558
VAT and other taxes recoverable	**85,050**	54,058
	277,099	226,732
Less non-current portion:		
Prepayments for property, plant and equipment	**83,045**	75,777
Total non-current portion	**83,045**	75,777
Total current portion	**194,054**	150,955

Increase in 'VAT and other taxes recoverable' as at 31 March 2012 compared to 31 December 2011 was due to the increase in VAT recoverable on the new rail cars acquired by the Group during the three months ended 31 March 2012.

12. TRADE AND OTHER PAYABLES

	As at 31-Mar-2012 US$'000	As at 31-Dec-2011 US$'000
Current		
Trade payables—third parties	**12,731**	10,620
Trade payables—related parties (Note 20)	**710**	454
Other payables—third parties	**19,024**	17,756
Other payables—related parties (Note 20)	**9**	—
Accrued expenses	**8,547**	6,954
Advances from third parties	**16,456**	26,796
Advances from related parties (Note 20)	**773**	1,379
	58,250	63,959

13. BORROWINGS

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
Current		
Bank overdrafts	**1,074**	1,037
Bank borrowings	**164,014**	123,050
Non-convertible unsecured bonds	**24,209**	20,032
Finance lease liabilities	**25,228**	26,612
	214,525	170,731
Non-current		
Bank borrowings	**155,263**	131,180
Non-convertible unsecured bonds	**395,111**	55,661
Finance lease liabilities	**44,332**	21,540
	594,706	208,381
Total borrowings	**809,231**	379,112

Movements in borrowings are analysed as follows:

	US$'000
Three months ended 31 March 2012	
Opening amount as at 1 January 2012	379,112
Proceeds from bank borrowings	103,846
Proceeds from issue of non-convertible unsecured bonds	332,975
Repayments of bank borrowings	(28,551)
Repayment of non-convertible unsecured bonds	(4,995)
Repayments of finance leases	(11,074)
Interest charged	11,287
Interest paid	(10,500)
Net foreign exchange difference	37,131
Closing amount as at 31 March 2012	**809,231**

In March 2012, OJSC New Forwarding Company, a Russian subsidiary of the Company, has issued 3-year Russian rouble denominated exchange-traded bonds for a total amount of RUB10 billion (US$332,975 thousand) (three months ended 31 March 2011 US$NIL) at a coupon rate of 10.00% per annum. Bonds are traded on MICEX in Moscow. The Company acts as the guarantor for the bond issue.

Acquisition of new rolling stock by the Group during the three months ended 31 March 2012 (Note 10) were financed with bank borrowings, issue of non-convertible unsecured bonds and through finance lease arrangements.

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**88,588**	69,432
Between 2 and 5 years	**460,104**	115,111
Over 5 years	**1,682**	2,298
	550,374	186,841

13. BORROWINGS (Continued)

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
Finance lease liabilities—minimum lease payments		
Not later than 1 year	**25,944**	27,912
Later than 1 year and not later than 5 years	**47,724**	22,241
Future finance charges of finance leases	**(4,108)**	(2,001)
Present value of finance lease liabilities	**69,560**	48,152
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**25,228**	26,612
Later than 1 year and not later than 5 years	**44,332**	21,540
	69,560	48,152

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

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
US Dollar	**148,415**	79,890
Russian Rouble	**658,437**	299,120
Euro	**2,379**	102
	809,231	379,112

The group has the following undrawn borrowing facilities:

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
Fixed rate:		
—expiring within one year	**345,403**	86,452
Floating rate:		
—expiring within one year	**6,241**	26,012
Total undrawn borrowing facilities	**351,644**	112,464

Increase in undrawn borrowing facilities as at 31 March 2012 was due to the attraction of bank financing during the first three months of 2012 for the purposes of the acquisition of rail cars in early April 2012 (refer to Note 21).

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

	As at 31-Mar-2012	As at 31-Dec-2011
	%	%
Bank overdrafts	**2.2**	2.2
Bank borrowings	**8.3**	8.8
Non-convertible bonds	**9.9**	9.3
Finance lease liabilities	**3.8**	5.0

14. INCOME TAXES

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year to 31 December 2012 is 21.0% (2011: 22.2%).

Included within 'Deferred tax' in the tax reconciliation note is deferred tax provision of US$6,579 thousand due to the change in intention for distribution of profits of a Russian subsidiary of the Company (the applicable dividend tax rate is 5%) and it is no longer probable that dividend distributions would only be made from future profits of that subsidiary. This resulted in the recognition of one-off deferred tax provision in the amount of US$4,361 thousand (relates to the profits earned in the prior periods) and a further deferred tax provision of US$2,218 thousand for the current year profits. This change of intention for distribution of profits of this subsidiary is the main reason for the increase in deferred tax liability as at 31 March 2012 relative to 31 December 2011.

15. EARNINGS PER SHARE

Basic and diluted

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

	Three months ended 31-Mar-2012	**Three months ended 31-Mar-2011**
Profit for the period attributable to equity holders of the Company (US$'000)	**80,017**	61,355
Weighted average number of ordinary shares in issue (excluding treasury shares) (thousand)	**154,578**	158,136
Earnings per share for profit attributable to the equity holders of the company:		
—basic and diluted (expressed in US$ per share)	**0.52**	0.39

16. DIVIDENDS

No interim dividends were declared by the Company during the three months ended 31 March 2012.

At the Annual General Meeting which will take place on 4 May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of shares issued (excluding treasury shares) as of the date of authorisation of these financial statements is proposed. These interim financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in May 2012 when these dividends were approved by shareholders.

During the period ended 31 March 2012, the Group declared and paid US$3,840 thousand (2011: US$11,369 thousand) of dividends in favour of non-controlling interests.

17. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	**Share capital**	**Share premium**	**Total**
		US$'000	**US$'000**	**US$'000**
At 31 December 2011/31 March 2012	**158,135,533**	**15,814**	**621,227**	**637,041**

In January 2012 the Company, in accordance with the decision of the Extraordinary General Meeting which took place on 20 December 2011, has completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579 (Refer to Note 20). The shares will be held in treasury for a maximum period of 24 months and may be re-issued or cancelled at the discretion of the Company.

18. CONTINGENCIES

Legal proceedings

During the 3 months ended 31 March 2012, the Group was involved as a claimant in a number of court proceedings.

In July 2011 the Group received a notice of a claim in relation to 240 railcars, which a subsidiary of the Company acquired through finance lease in July 2010. The claim suggests that such railcars were not released from pledge by the lessor upon transfer to the Group and due to the fact that the lessor defaulted on its obligations to the pledgee, the claim was brought against the subsidiary of the Company being the current owner of the pledged railcars by a third party who in turn purchased the rights of claim for the said obligations from the pledgee. Two law suits are in progress in relation to this matter, one in Moscow City Arbitration Court in Russia and a second one in the Moldova Republic. In February 2012 the subsidiary of the Company received a positive ruling from Moscow City Arbitration Court in respect of this claim, which was, however, set aside by the Court of Appeals in its decision of 2 July 2012. The subsidiary intends to contest this decision of the Court of Appeals in the cassation. The case in Moldova Republic is still pending in court.

The net book value of the railcars involved in the above claim as at 31 March 2012 was RR230,684 thousand (US$7,866 thousand at 31 March 2012 exchange rate).

In February 2012, the pledgee in the above case has also brought a similar claim against the same subsidiary of the Company. It is claimed that such subsidiary of the Company owes to the pledgee RR24,438 thousand (US$833 thousand at 31 March 2012 exchange rate) based on the fact that the right of claim in respect of 50 railcars remained with the pledgee. On 22 June 2012, the court of first instance dismissed the case.

Based on current facts and circumstances, management believes that it is not probable that the Group will incur outflow of economic resources as a result of the claims above, consequently, no provision has been recorded in these interim consolidated financial statements.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 March 2012, 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 interim condensed consolidated financial information.

19. COMMITMENTS

Capital commitments

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

	As at 31-Mar-2012	As at 31-Dec-2011
	US$'000	US$'000
Property, plant and equipment	**426,951**	205,595

20. 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 together with its affiliates owns 12.23% (including the holding of Global Depositary Receipts of the Company) of the Company's shares. Further, the Directors of the Company control 0.06% of the Company's shares through their holdings of Global Depositary Receipts. The Company holds 3,637,117 ordinary shares representing 2.30% of the issued share capital as treasury shares. The remaining 35.31% 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 Mirbay International Inc, registered in Bahamas.

20. RELATED PARTY TRANSACTIONS (Continued)

The following transactions were carried out with related parties:

(a) Sales of goods and services

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Sales of services:		
Other related parties		
Entities under control of the Parent	**18,905**	10,208
Entities under significant influence/joint control of the Parent	**60**	3,966
Entities under significant influence of members of key management	**30,786**	28,399
	49,751	42,573

(b) Purchases of goods and services

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Purchases of services:		
Associate	**—**	392
Other related parties		
Entities under control of the Parent	**1,159**	1,415
Entities under control by parties with significant influence over the Group	**266**	
Entities under significant influence of the Parent	**—**	107
Entities under significant influence of members of key management	**5,668**	5,454
	7,093	7,368

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

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Additions:		
Other related parties		
Entities under control of the Parent	**289**	434
Entities under significant influence of members of key management	**168**	4
	457	438

(d) Key management compensation

	Three months ended 31-Mar-2012	Three months ended 31-Mar-2011
	US$'000	US$'000
Key management salaries and other short term employee benefits(1)	**1,333**	1,051
	1,333	1,051

(1) Includes directors' remuneration paid to the directors of the Company both by the Company and subsidiaries of the Group in respect of services provided to such subsidiaries amounting to US$445 thousand for the three months ended 31 March 2012 (three months ended 31 March 2011: US$253 thousand).

20. RELATED PARTY TRANSACTIONS (Continued)

(e) Period-end balances arising from sales/purchases of goods/services

	As at 31-Mar-2012 US$'000	As at 31-Dec-2011 US$'000
Trade receivables from related parties:		
Other related parties		
Entities under control of the Parent	**4,826**	7,738
Entities under significant influence/joint control of the Parent	**160**	—
Entities under significant influence of members of key management	**11,419**	6,991
	16,405	14,729
Other receivables from and prepayments to related parties:		
Associate	**44**	—
Other related parties		
Entities under control of the Parent	**348**	407
Entities under significant influence of members of key management	**1,182**	2,474
	1,574	2,881
Trade payables to related parties:		
Other related parties		
Entities under control of the Parent	**346**	212
Entities under significant influence of members of key management	**364**	242
	710	454
Other payables to and advances from related parties:		
Other related parties		
Entities under control of the Parent	**155**	98
Entities under significant influence of members of key management	**627**	1,281
	782	1,379

(f) Purchase of own shares

In January 2012 the Company, in accordance with the decision of the Extraordinary General Meeting which took place on 20 December 2011, has completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579 (Note 17). The shares will be held in treasury for a maximum period of 24 months and may be re-issued or cancelled at the discretion of the Company.

21. SUBSEQUENT EVENTS

On 26 April 2012 the Group has signed an agreement to acquire 100 per cent interest in LLC Metalloinvesttrans from Metalloinvest Group, the largest iron ore producer in Russia, an unrelated party, for a base consideration of US$ 540,000 thousand on a cash and debt free basis, assuming normalised working capital and no capital commitments. The term credit facility for the finance of the acquisition of Metalloinvesttrans was attracted in USD at the floating rate with maturity of three years. Metalloinvesttrans was acquired through OJSC New Forwarding Company, a 100% subsidiary of the Group. Metalloinvesttrans is a freight rail operator owning 8,256 rail cars as at 31 December 2011, 95% of its fleet consists of universal open wagons. Metalloinvesttrans services 100 per cent of Metalloinvest's rail transportation volumes with owned and 3rd party subcontracted fleet. As part of the acquisition the Group has signed a three year framework contracts under which the relevant Metalloinvest entities are required to use the Group to manage the transportation of all of their cargo volumes in the first year and 60 per cent of those volumes in the second and third years (subject in the second and third years to agreement on pricing and conditions). The regulatory approval for the acquisition was obtained on 10 May 2012 and the acquisition was completed on 15 May 2012.

21. SUBSEQUENT EVENTS (Continued)

The acquisition will be recorded in accordance with the acquisition method of accounting. The initial accounting for the business combination has not been completed as of the date of authorisation of these consolidated interim financial information for issue, therefore further details are not yet available for disclosure.

Since 31 March 2012, the Group took delivery of 6,616 railcars. Under existing contractual arrangements, the Group expects to take delivery of the remaining 817 units by the end of August 2012.

Since 31 March 2012 to finance the acquisition of Metalloinvesttrans and the purchase of additional railcars, the Group attracted borrowings for a total amount of US$902,557 thousand.

22. SEASONALITY

The operations of the Group are not subject to seasonal fluctuations.

Independent Auditors' Review Report

to Globaltrans Investment Plc

Introduction

We have been engaged by Globaltrans Investment Plc "the Company" to review the accompanying condensed consolidated interim financial information of the Company and its subsidiaries ("the Group") for the three months ended 31 March 2012, which comprises the condensed consolidated interim balance sheet as of 31 March 2012 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and related notes.

Board of Directors' responsibilities

The condensed consolidated interim financial information is the responsibility of, and has been approved by, the Board of Directors. The Board of Directors is responsible for preparing the condensed consolidated interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap.113. The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial information based on our review. This report, including the conclusion, has been prepared for and only for the Company. We do not, in producing this report, accept or assume responsibility to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers Ltd, City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus
P O Box 53034, CY-3300 Limassol, Cyprus
T: +357 25 - 555 000, F:+357 - 25 555 001, www.pwc.com/cy

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the three months ended 31 March 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

PricewaterhouseCoopers Limited
Chartered Accountants

6 July 2012
Limassol
Cyprus

1 *The maintenance and integrity of the Globaltrans website is the responsibility of the Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

Globaltrans Investment PLC

Directors' report and consolidated financial statements for the year ended 31 December 2011

CONTENTS

Directors' report and consolidated financial statements for the year ended 31 December 2011

BOARD OF DIRECTORS AND OTHER OFFICERS

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee
Alternate director: Ms. Ekaterina Golubeva

Mr. Michael Zampelas
Senior Independent non-executive Director
Chairman of the Audit Committee
Member of Remuneration and Nomination Committees

Dr. Johann Franz Durrer
Independent non-executive Director
Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Mr. Sergey Maltsev
Executive Director
Chief Executive Officer
Alternate director: Mr. Konstantin Tserekh

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

Ms. Elia Nicolaou
Non-executive Director
Member of the Audit Committee
Alternate director: Mr. Marios Tofaros

Mr. Konstantin Shirokov
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

Assistant secretary: Mr. Marios Tofaros

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 consolidated financial statements for the year ended 31 December 2011. 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.

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

The net profit of the Group for the year ended 31 December 2011 was US$317,226 thousand (2010: US$225,940 thousand). On 31 December 2011 the total assets of the Group were US$1,467,848 thousand (2010: US$1,515,341 thousand) and net assets were US$989,055 thousand (2010: US$883,965 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 consolidated financial statements.

The Group's contingencies are disclosed in Note 28 to the consolidated 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 position as a leading private freight rail group in Russia. The Group intends to continue its return-oriented expansion pursuing the strategy of opportunistic growth. The Group will also continue its focus on effective fleet management.

Results

The Group's results for the year are set out on pages F-12 and F-13. The Board of Directors recommends 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.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2011.

In May 2011 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of US$58,510,147.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of issued shares (excluding treasury shares) as of the date of this report.

Share capital

As at 31 December 2011 and 31 December 2010 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2011 and 31 December 2010 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share.

The role of the Board of Directors

The Group is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Group.

The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Group's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The Board comprises seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2011 and at the date of this report are shown on page F-27. All of them were members of the Board throughout the year ended 31 December 2011.

There is no provision in the Company's Articles of Association for retirement of Directors by rotation; however, in accordance with the Terms of reference of the Board of Directors all board members are required to submit for re-election at least once every three years. Should a non-executive Director serve any term beyond six years, his re-election would be subject to particularly rigorous review. In practice, all current appointments are for one year and all directors will stand for re-election at the forthcoming Annual General Meeting of shareholders of the Company.

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 paid by the Company in 2011 amounted to US$397 thousand (2010: US$384 thousand).

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 2011 and 31 December 2010 are shown below:

Name	Type of holding	2011	2010
Alexander Eliseev . . .	Indirect holding of ordinary shares and GDRs	11,318,909	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	11,658,456	11,658,456
Johann Franz Durrer	Holding of GDRs	100,000	100,000

Total number of issued shares of the Company as at 31 December 2011 and 31 December 2010 was 158,135,533

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 31 to the consolidated financial statements.

Board performance

The Board held 14 meetings in 2011. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	5
Michael Zampelas	14
Johann Franz Durrer	14
Sergey Maltsev	10
Mikhail Loganov	14
Elia Nicolaou	14
Konstantin Shirokov	14

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 Company's financial statements, including its annual and interim accounts
- the effectiveness of the Company'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.

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 Company'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 Company'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.

Corporate governance

In March 2008, Globaltrans' Board of Directors adopted the Company's Code of Corporate Governance (the "Code"), guaranteeing that the interests of all shareholders are given due consideration. Although the Code is based on principles recommended by the UK's Combined Code on Corporate Governance, this does not constitute voluntary compliance with such governance code.

Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. As such, all employees are required to comply with these guidelines and the Group's management team takes responsibility for ensuring that all departments adhere to these standards. These key principles are promoted and applied across all levels of the Group in order to establish effective and transparent corporate governance. In January 2010, the Board supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the rights of non-controlling shareholders of the Company.

Full details of our governance policies can be found at
http://www.globaltrans.com/about-us/corporate-governance/governance-policies/

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.

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 13 May 2011.

Refer to Note 30 of the consolidated financial statements for details of remuneration of directors and other key management personnel.

Branches

The Group operates through branches and representative offices, maintaining eleven branches and seventeen representative offices during 2011 (one of the representative offices was converted into a branch in 2011),, ten branches and eighteen representative offices during 2010.

Treasury shares

During the year ended 31 December 2011 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. On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. The shares will be held as treasury shares for a maximum period of two years.

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 consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2012, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By Order of the Board

s/Alexander Eliseev

Alexander Eliseev
Chairman of the Board of Directors

Limassol
11 April 2012

DIRECTORS' RESPONSIBILITY

The Company's Board of Directors is responsible for the preparation and fair presentation of these 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 controls 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 Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages F-35 to F-90) and report of the Board of Directors (pages F-28 to F-31) 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 financial position, financial performance and cash flows the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board

s/Sergey Maltsev	s/Mikhail Loganov
Sergey Maltsev Director	Mikhail Loganov Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GLOBALTRANS INVESTMENT PLC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 consolidated 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 Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors 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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

Vasilis Hadjivassiliou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 11 April 2012

GLOBALTRANS INVESTMENT PLC
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		US$'000	US$'000
Revenue	5	**1,733,056**	1,382,670
Cost of sales	6	**(1,210,827)**	(981,428)
Gross profit		**522,229**	401,242
Selling and marketing costs	6	**(3,088)**	(2,692)
Administrative expenses	6	**(90,317)**	(72,225)
Other gains—net	7	**3,140**	3,048
Operating profit		**431,964**	329,373
Finance income	9	**7,362**	7,203
Finance costs	9	**(39,935)**	(53,109)
Finance costs—net	9	**(32,573)**	(45,906)
Share of profit of associates	14	**428**	206
Profit before income tax		**399,819**	283,673
Income tax expense	10	**(82,593)**	(57,733)
Profit for the year		**317,226**	225,940
Attributable to:			
Owners of the Company		**266,423**	177,322
Non-controlling interests		**50,803**	48,618
		317,226	225,940
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	27	**1.68**	1.12

The notes on pages F-40 to F-90 are an integral part of these consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011	2010
	US$'000	US$'000
Profit for the year	**317,226**	225,940
Other comprehensive income:		
Currency translation differences	**(58,599)**	(10,417)
Other comprehensive loss for the year, net of tax	**(58,599)**	(10,417)
Total comprehensive income for the period	**258,627**	215,523
Total comprehensive income attributable to:		
—owners of the Company	**216,917**	167,598
—non-controlling interests	**41,710**	47,925
	258,627	215,523

Items in the statement above are disclosed net of tax. There is no income tax relating to the components of other comprehensive income above.

The notes on pages F-40 to F-90 are an integral part of these consolidated financial statements.

GLOBALTRANS INVESTMENT PLC

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2011

	Note	2011	2010
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**1,106,171**	1,112,212
Intangible assets	13	**150**	331
Trade and other receivables	18	**75,777**	64,365
Investment in associate	14	**1,845**	1,494
Total non-current assets		**1,183,943**	1,178,402
Current assets			
Inventories	19	**8,002**	6,918
Trade and other receivables	18	**150,955**	184,358
Current income tax assets		**4,191**	7,960
Cash and cash equivalents	20	**120,757**	137,703
Total current assets		**283,905**	336,939
Total Assets		**1,467,848**	1,515,341
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	21	**15,814**	15,814
Share premium	21	**621,227**	621,227
Common control transaction reserve		**(368,476)**	(368,476)
Translation reserve		**(139,787)**	(90,281)
Capital contribution		**90,000**	90,000
Retained earnings		**639,283**	485,575
Total equity attributable to the owners of the Company		**858,061**	753,859
Non-controlling interests		**130,994**	130,106
Total equity		**989,055**	883,965
Non-current liabilities			
Borrowings	24	**208,381**	327,890
Trade and other payables	26	**—**	10,467
Deferred tax liabilities	25	**35,247**	32,430
Total non-current liabilities		**243,628**	370,787
Current liabilities			
Borrowings	24	**170,731**	191,149
Trade and other payables	26	**63,959**	67,203
Deferred gains	23	**—**	150
Current tax liabilities		**475**	2,087
Total current liabilities		**235,165**	260,589
Total Liabilities		**478,793**	631,376
Total Equity and Liabilities		**1,467,848**	1,515,341

On 11 April 2012 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

s/Sergey Maltsev

Sergey Maltsev,
Director

s/Mikhail Loganov

Mikhail Loganov,
Director

The notes on pages F-40 to F-90 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

		Attributable to the owners of the Company								
	Note	Share capital	Share premium	Common control transaction reserve	Translation reserve	Capital contribution	Retained earnings	Total	Non-controlling interests	Total
		US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2010		**15,814**	**621,227**	**(368,476)**	**(80,557)**	**90,000**	**332,253**	**610,261**	**101,307**	**711,568**
Comprehensive income										
Profit for the year		—	—	—	—	—	177,322	177,322	48,618	225,940
Other comprehensive loss										
Currency translation differences		—	—	—	(9,724)	—	—	(9,724)	(693)	(10,417)
Total comprehensive income for 2010		—	—	—	(9,724)	—	177,322	167,598	47,925	215,523
Transactions with owners										
Dividends to owners of the Company	22	—	—	—	—	—	(24,000)	(24,000)	—	(24,000)
Dividends to non-controlling interests	22	—	—	—	—	—	—	—	(19,154)	(19,154)
Contribution by non-controlling interests		—	—	—	—	—	—	—	28	28
Total transactions with owners		—	—	—	—	—	(24,000)	(24,000)	(19,126)	(43,126)
Balance at 31 December 2010/1 January 2011		**15,814**	**621,227**	**(368,476)**	**(90,281)**	**90,000**	**485,575**	**753,859**	**130,106**	**883,965**
Comprehensive income										
Profit for the year		—	—	—	—	—	266,423	266,423	50,803	317,226
Other comprehensive loss										
Currency translation differences		—	—	—	(49,506)	—	—	(49,506)	(9,093)	(58,599)
Total comprehensive income for 2011		—	—	—	(49,506)	—	266,423	216,917	41,710	258,627
Transactions with owners of the Company										
Dividends to owners of the Company	22	—	—	—	—	—	(58,510)	(58,510)	—	(58,510)
Dividends to non-controlling interests	22	—	—	—	—	—	—	—	(24,915)	(24,915)
Total contributions by and distributions to owners of the Company		—	—	—	—	—	(58,510)	(58,510)	(24,915)	(83,425)
Acquisition of non-controlling interests in subsidiaries	15	—	—	—	—	—	(54,205)	(54,205)	(15,907)	(70,112)
Total transactions with owners of the Company		—	—	—	—	—	(112,715)	(112,715)	(40,822)	(153,537)
Balance at 31 December 2011		**15,814**	**621,227**	**(368,476)**	**(139,787)**	**90,000**	**639,283**	**858,061**	**130,994**	**989,055**

The notes on pages F-40 to F-90 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
		US$'000	US$'000
Cash flows from operating activities			
Profit before tax		**399,819**	283,673
Adjustments for:			
Depreciation of property, plant and equipment	12	**75,052**	63,017
Amortisation of intangible assets	13	**179**	173
Loss on sale of property, plant and equipment	12	**1,244**	2,041
Amortisation of financial guarantees	9	**—**	(961)
Reversal of impairment charge on property, plant and equipment	12	**(172)**	(650)
Interest and other finance income	9	**(7,362)**	(6,242)
Interest expense	9	**36,726**	43,656
Share of profit of associates	14	**(428)**	(206)
Exchange losses on financing activities	9	**2,046**	7,450
Recognised deferred gain	7	**(156)**	(333)
Finance cost on liability for minimum dividend distribution	9	**1,163**	2,003
		508,111	393,621
Changes in working capital:			
Inventories		**(1,586)**	(1,101)
Trade and other receivables		**3,748**	(79,319)
Trade and other payables		**(5,074)**	10,054
Cash generated from operations		**505,199**	323,255
Tax paid		**(63,441)**	(34,306)
Net cash from operating activities		**441,758**	288,949
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired		**—**	(7,013)
Loans repayments received from third parties		**—**	17
Purchases of property, plant and equipment		**(173,941)**	(299,822)
Proceeds from disposal of property, plant and equipment	12	**4,526**	185
Proceeds from sale of assets classified as held for sale		**—**	2,636
Interest received		**7,317**	6,558
Receipts from finance lease receivable		**35,925**	4,472
Net cash used in investing activities		**(126,173)**	(292,967)
Cash flows from financing activities			
Proceeds from borrowings		**112,156**	437,279
Repayments of borrowings		**(179,401)**	(246,981)
Finance lease principal payments		**(58,630)**	(119,218)
Interest paid		**(36,519)**	(43,576)
Acquisitions of non-controlling interests	15	**(81,700)**	—
Contributions from non-controlling interests	15	**—**	28
Dividends paid to Company's shareholders	22	**(58,510)**	(24,000)
Dividends paid to non-controlling interests	22	**(26,078)**	(21,157)
Net cash used in financing activities		**(328,682)**	(17,625)
Net decrease in cash and cash equivalents		**(13,097)**	(21,643)
Exchange losses on cash and cash equivalents		**(4,141)**	(492)
Cash, cash equivalents and bank overdrafts at beginning of year	20	**136,958**	159,093
Cash, cash equivalents and bank overdrafts at end of year	20	**119,720**	136,958

Principal non-cash investing and financing transactions

The principal non-cash investing and financing transactions consist of:

(a) Finance leases as a lessor (Note 18)
(b) Finance leases as a lessee (Note 24)

The notes on pages F-40 to F-90 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Country of incorporation

The Company is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113 and converted into a public company on 15 April 2008. The address of its registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 16/15 Spartakovskaya Sqr., Moscow, Russia.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 11 April 2012.

Global Depositary Receipts

Global Depositary Receipts each representing one ordinary share of the Company are listed on the London Stock Exchange International Main Market.

Principal activities

The principal activity of the Group, which is unchanged from last year, is the provision of railway transportation services using own or leased rolling stock and operating lease of rolling stock.

Group structure

Globaltrans Investment PLC has direct and indirect shareholding in the following investments in subsidiaries:

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2011	Effective % interest held 2010
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	100	100
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	100	100
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	100
BaltTransServis, LLC	Subsidiary	Russia	Railway transportation	60	50
RemTransServis, OOO	Subsidiary	Russia	Repair and maintenance of rolling stock	59.4	49.5
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	60	55.56
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	60	50
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	65.25	61
Hoover SIA*	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	—	61
Ekolinja Oy	Subsidiary	Finland	Operating sub-lease of rolling stock	65.25	61
Spacecom Trans AS	Subsidiary	Estonia	Operating lease of rolling stock	65	65

* Liquidated.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of preparation

The consolidated financial statements of Globaltrans Investment PLC 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 2011 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties This amendment was adopted previously by the Group in its prior year's financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

- Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19—The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

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):

(b) Standards, amendments and interpretations that are relevant and not yet effective and have not been early adopted by the Group

- IFRS 9, Financial Instruments: Classification and Measurement*. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

  — Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  — An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

  — All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

— Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the standard by the European Union.

- IFRS 10, Consolidated Financial Statements* (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation—special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the standard by the European Union.
- IFRS 12, Disclosure of Interest in Other Entities*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities The Group expects the new standard to have an impact on disclosures of interest in other entities but no impact on the measurement of interests in other entities. The timing of its adoption by the Group is subject to endorsement of the standard by the European Union.
- IFRS 13, Fair value measurement*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the standard by the European Union.
- IAS 27, Separate Financial Statements*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the amendment by the European Union.
- Amendments to IAS 1, Presentation of Financial Statements* (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial statements, but have no impact on measurement of transactions and balances. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

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

- IAS 28, Investments in Associates and Joint Ventures*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment is not expected to have an impact on the Group's financial statements. The amendment is subject to endorsement by the European Union.

- IFRS 11, Joint Arrangements*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendment is not expected to have an impact on the Group's consolidated financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

- Disclosures—Transfers of Financial Assets—Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have an impact on the Group's consolidated financial statements.

- Amended IAS 19, Employee Benefits* (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect that the adoption of this amendment will have any impact on the financial statements as the Group does not operate any defined benefit pension plans. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

- Offsetting Financial Assets and Financial Liabilities—Amendments to IAS 32* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Disclosures—Offsetting Financial Assets and Financial Liabilities—Amendments to IFRS 7* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments. The timing of the adoption of the amendment by the Group is subject to endorsement of the amendment by the European Union.
- Amendment to IAS 12 "Income Taxes"* on deferred tax relating to recovery of underlying assets (issued in September 2010 and effective for annual periods beginning on or after 1 January 2012). IAS 12 "Income Taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS40 "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income taxes—recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards"* on severe hyperinflation and removal of fixed dates for First Time Adopters (issued in August and September 2010 and effective for annual periods beginning on or after 1 July 2011). These amendments include two changes to IFRS1 "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provide guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"* (issued in October 2011 and effective for annual period beginning on or after 1 January 2013). IFRIC 20, 'Stripping costs in the production phase of a surface mine', sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- Amendments to IFRS 1 "First—time adoption of International Financial Reporting Standards" on the application of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure on Government Assistance" * (issued in March 2013 and effective for annual periods beginning on or after 1 January 2013). The IASB has amended IFRS 1, 'First-time adoption of International Financial Reporting Standards' to provide relief from the retrospective application of IFRSs in relation to government loans. The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRSs. The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement by the European Union.

Basis of consolidation

(a) Subsidiaries

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

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

The purchase method of accounting is used for the acquisitions of subsidiaries that do not involve entities or businesses under common control by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued by the Group and liabilities incurred to the former owners of the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. 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.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at the fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners in their capacity as equity owners of the Group. For purchases from

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

non-controlling interests, the difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) 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. The Group's investment in associates includes goodwill identified on acquisition. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

(a) Revenue from railway transportation services

The Group operates the following services:

1. 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. Under these arrangements the Group recognises turnover net of OAO "Russian Railways" tariff.
- 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". Under these arrangements the Group recognizes revenue net of OAO "Russian railways" tariff.

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

2. Revenues from railway transportation—freight forwarding (agency fees)

The Group 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.

(b) Revenues from leasing

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) 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.

(d) Interest income

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

(e) Dividend income

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuations where items are re-measured. 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 are presented in the income statement within 'Finance costs'. Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within 'Finance income'. All other foreign exchange gains and losses are presented in the income statement within 'Other gains—net'.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency 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 monthly rate, which approximates the exchange rate existing at the date of transactions; and,
- Share capital, share premium and all other reserves are translated using the historic rate.

All exchange differences resulting from the above translation are recognised in other comprehensive income.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

On consolidation, exchange differences arising from the transaction of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of or sold and control or significant influence is lost, 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
Rolling stock (except locomotives)	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 the end of each reporting period.

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 as part of operating expenses.

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.

Intangible assets

(a) Computer software

The costs of acquiring computer software for internal use are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of a durable asset. Computer software is capitalised at cost and amortised over three years, which reflects its estimated useful life, using straight-line method commencing when the asset is available for its intended use. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 have suffered impairment are reviewed for possible reversal of impairment whenever there is an indication that an impairment recognised in prior periods may no longer exist or may have decreased.

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group is the lessor

(a) Finance leases

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

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

(b) Operating leases

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

Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

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, loans to related and third parties, finance lease receivables and cash and cash equivalents in the balance sheet.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 subsequently 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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Extinguishment of the original financial liability

Substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the existing liability and the new liability is recognized in the income statement as part of finance costs.

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. Receipts from finance lease receivables are included within cash flows from investing activities.

Trade receivables

Trade receivables are amounts due from customers for services provided in the ordinary course of business. If collection is expected in one year or less (or in a normal operating cycle of the business, if longer than one year) they are classified as current assets, if not, they are presented as non-current assets.

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

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. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or re-issued. Where such ordinary shares are subsequently re-issued, any consideration received, net of any directly attributable

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 in the period in which they are incurred.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee and amortisation income is recognised in the income statement within finance income. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

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

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and are no longer at the discretion of the Company. More specifically, interim dividends are recognised when approved by the Board of directors whereas in case of final dividends, these are recognised at the time when they are approved by the Company's shareholders.

Distribution of dividends by Ultracare Holdings Limited in favour of non-controlling interests in satisfaction of the minimum dividends distribution obligation is recognised in the income statement as part of finance costs, whereas any distribution in excess of such minimum distribution obligation are recognised as dividends to non-controlling interests in the statement of changes in equity.

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 program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial results.

Market risk

(a) 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 proportion 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 Rubles. 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 continues its efforts to re-finance some of its US Dollar denominated liabilities by obtaining long term debt denominated in Russian Rubles. However, as the US dollar interest rates continue to be relatively attractive compared to the Russian Ruble interest rate, a portion of the Group's long-term borrowings continue to be in US dollars.

During 2010 the Russian Ruble was relatively stable against the US Dollar, however, its fluctuation within the period has resulted in foreign exchange losses for the Group for the year ended 31 December 2010. During 2011 the Russian Ruble has weakened against the US Dollar, which resulted in further foreign exchange losses for the Group for the year ended 31 December 2011. Such losses were minimized due to lower net US Dollar denominated liabilities as of the end of 2011 compared to 2010. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Ruble,

3. FINANCIAL RISK MANAGEMENT (Continued)

which could have a material effect on its results of operations and financial condition. The Group is also exposed to the effects of currency fluctuations between the US Dollar and the Euro, which is the functional currency of the Estonian subsidiaries and US Dollar and the Ukrainian Hryvna, which is the fuctional currency of the Ukrainian subsidiary of the Group.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
	US$'000	US$'000
Assets	73,802	83,716
Liabilities	84,644	115,235

Had US dollar exchange rate strengthened/weakened by 15% against the Russian Ruble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have increased/decreased by US$6,358 thousand (2010: 10% change, effect US$1,787 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars for the Group entities with Russian Ruble being their functional currency. Profit was more sensitive to fluctuations of the exchange rate of Russian Ruble to US dollar for the year ended 31 December 2011 compared to 2010 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2011 (Note 24) combined with the increase of the proportion of US Dollar denominated cash and cash equivalents as at the end of 2011.

Had US dollar exchange rate strengthened/weakened by 15% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have decreased/increased by US$4,586 thousand (2010: 10% change, effect US$3,323 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Estonian subsidiaries of the Group. Profit was less sensitive to fluctuations of the exchange rate of Euro to US dollar for the year ended 31 December 2011 due to decrease in borrowings of the Estonian subsidiaries of the Group.

Had US dollar exchange rate strengthened/weakened by 15% against the Ukrainian Hryvna and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have decreased/increased by US$2,840 thousand (2010: 10% change, effect US$127 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of borrowings denominated in US Dollars for the Ukrainian subsidiary of the Group. Profit more sensitive to fluctuations of the exchange rate of Ukrainian Hryvna to US dollar for the year ended 31 December 2011 due to increase in US Dollar denominated borrowings of the Ukrainian subsidiary of the Group.

(b) 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 finance lease liabilities and finance lease receivables with fixed interest rates. However, any potential change in the market rates of interest will not have an impact on the carrying amount of the fixed rate financial instruments and hence on the Group's post tax profit or equity as these instruments are carried at amortised cost.

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.

3. FINANCIAL RISK MANAGEMENT (Continued)

Had US dollar, Euro and Russian Ruble 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$412 thousand for the year ended 31 December 2011 (2010: US$2,443).

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.

(c) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade and other receivables and finance lease receivables (Note 18), and cash and cash equivalents (Note 20).

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Majority of bank balances are held with independently rated parties with a minimum rating of 'B'. 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 71.62% of the Group's trade and other receivables (excluding prepayments and finance lease receivables as at 31 December 2010 (2010: 63.63%).

These figures include trade and other receivables arising from business with related parties which account for 27.40% as at 31 December 2011 (2010: 19.99%).

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 2011 and 31 December 2010:

	Fully performing	Past due	Impaired	Impairment provision	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
As of 31 December 2011					
Trade receivables	35,907	16,307	1,467	(1,467)	52,214
Other receivables	823	231	406	(406)	1,054
	36,730	**16,538**	**1,873**	**(1,873)**	**53,268**
As of 31 December 2010					
Trade receivables	35,360	18,676	1,645	(1,645)	54,036
Other receivables	3,693	290	676	(676)	3,983
Finance lease receivables	35,906	—	—	—	35,906
	74,959	**18,966**	**2,321**	**(2,321)**	**93,925**

Note: other receivables exclude other taxes receivable as the analysis is provided for financial assets only.

(d) Liquidity risk

The Group has a net working capital surplus of US$48,740 thousand as at 31 December 2011 (2010: US$76,350).

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$112,464 thousand for 2011 (2010: US$68,667 thousand), together with long-term borrowings (Note 24) 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2011 and 31 December 2010. 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
31 December 2011								
Borrowings	15,536	30,352	67,243	81,424	94,798	138,477	2,442	430,272
Trade and other payables	11,582	412	125	125	—	—	—	12,243
	27,118	**30,764**	**67,368**	**81,549**	**94,798**	**138,477**	**2,442**	**442,515**
31 December 2010								
Borrowings	16,924	27,796	54,595	127,579	162,593	202,479	6,298	598,624
Trade and other payables	17,176	314	113	2,332	2,398	6,315	10,675	39,323
	34,100	**28,110**	**54,708**	**129,911**	**165,351**	**208,794**	**16,973**	**637,947**

Note: statutory liabilities are excluded as the analysis is provided for financial liabilities only. Trade and other payables as of 31 December 2010 include liability for the minimum distribution of 25% of the distributable profits of LLC BaltTransServis to non-controlling shareholder of that subsidiary. The amounts included in the liquidity risk table in relation to this liability are the undiscounted cash flows expected to be paid by the Group to the non-controlling shareholder, based on the projected profitability of the relevant subsidiary for the next 5 years. For periods after 5 years, the amount disclosed in the liquidity risk table is the relative proportion of the terminal value, as estimated in the discounted cash flow valuation of the relevant subsidiary, which is attributable to the proportion of the non-controlling for which there is liability for minimum dividend distribution. Management is of the opinion that this provides the most useful information to the users of the financial statements to enable them to assess the impact of this liability on the liquidity position of the Group, as opposed to disclosing undiscounted cash flows to perpetuity. Such liability was extinguished in 2011 when such non-controlling interest was acquired by the Group (Note 15).

(e) 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 Company's equity owners 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 its 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 total equity attributable to the equity owners of the Company. 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 2011 and 31 December 2010 are as follows:

	2011	2010
	US$'000	US$'000
Total borrowings	**379,112**	519,039
Total capitalisation	**1,237,173**	1,272,898
Total borrowings to total capitalisation ratio (percentage)	**30.64%**	40.78%

3. FINANCIAL RISK MANAGEMENT (Continued)

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2011 and 2010. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(f) 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.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 28).

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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$556,030 thousand for the year ended 31 December 2011 (US$479,671 thousand for the year ended 31 December 2010).

The above include contracts with several customers where the Group amended the terms in 2011. Under the legal form of these contracts the Group now acts as an agent in respect of Russian Railway tariff and recharges it to its customers. Management believes that despite the change of legal form of the contracts the substance of the relationship with the customers remained unchanged and the Group continues to act as a principal, because the Group's customers do not interact with Russian Railways, the Group bears the credit risk and controls the flow of receipts and payments, the services are rendered with the use of own or leased rolling stock and the Group bears the Russian Railways tariff to bring the rolling stock back or to the next destination. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff is included in cost of sales. Had the Russian Railways loaded trip tariff directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by US$523,442 thousand for the year ended 31 December 2011.

5. SEGMENTAL INFORMATION

The chief operating decision-maker has been identified as the Board of Directors of the Group. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, management reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective management assesses the performance of each type (open wagons, tank cars, locomotives, hopper wagons, platforms) at the level of adjusted revenue.

Adjusted revenue is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure tariff paid for the loaded trips of relating rolling stock. Further the Board receives information in respect of repair expenses by type of rolling stock and relating depreciation charges. All other information provided to the Board is measured in a manner consistent with that in the financial statements.

Segment assets consist of rolling stock. Unallocated assets comprise all the assets of the Group except for rolling stock as included within segment assets.

Liabilities are not segmented since they are not reviewed from that perspective by the chief operating decision maker.

Capital expenditure comprises additions of rolling stock to property, plant and equipment.

5. SEGMENTAL INFORMATION (Continued)

The Group does not have transactions between different business segments.

	Open wagons	Tank cars	All other segments	Total
	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2011				
Total revenue—operator's services	624,608	1,009,572	17,615	1,651,795
Total revenue—operating lease	11,577	62,810	2,168	76,555
Inter-segment revenue	—	—	—	—
Revenue (from external customers)	636,185	1,072,382	19,783	1,728,350
less Infrastructure and locomotive tariffs—loaded trips	(5,188)	(549,036)	(1,806)	(556,030)
Adjusted revenue for reportable segments	630,997	523,346	17,977	1,172,320
Depreciation and amortisation	(41,690)	(26,910)	(2,526)	(71,126)
Reversal of impairment charge on property, plant and equipment	—	—	172	172
Additions to non-current assets (included in reportable segment assets)	81,244	36,781	192	118,217
Reportable segment assets	638,429	415,416	29,290	1,083,135
Year ended 31 December 2010				
Total revenue—operator's services	399,556	887,587	22,570	1,309,713
Total revenue—operating lease	5,771	62,876	1,892	70,539
Inter-segment revenue	—	—	—	—
Revenue (from external customers)	405,327	950,463	24,462	1,380,252
less Infrastructure and locomotive tariffs—loaded trips	(9,378)	(468,580)	(1,713)	(479,671)
Adjusted revenue for reportable segments	395,949	481,883	22,749	900,581
Depreciation and amortisation	(32,946)	(24,834)	(2,510)	(60,290)
Reversal of impairment charge on property, plant and equipment	—	—	650	650
Additions to non-current assets (included in reportable segment assets)	243,389	34,729	102	278,220
Reportable segment assets	634,938	425,489	35,553	1,095,980

5. SEGMENTAL INFORMATION (Continued)

A reconciliation of total adjusted revenue to total profit before income tax is provided as follows:

	2011	2010
	US$'000	US$'000
Adjusted revenue for reportable segments	**1,172,320**	900,581
Other revenues	**4,706**	2,418
Total adjusted revenue	**1,177,026**	902,999
Cost of sales (excl. Infrastructure and locomotive tariffs—loaded trips, impairments and depreciation of property, plant and equipment)	**(580,978)**	(440,368)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(92,219)**	(72,465)
Depreciation	**(75,052)**	(63,017)
Impairment reversal/(charge)	**47**	(824)
Other gains—net	**3,140**	3,048
Operating profit	**431,964**	329,373
Finance income	**7,362**	7,203
Finance costs	**(39,935)**	(53,109)
Share of profit of associates	**428**	206
Profit before income tax	**399,819**	283,673

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

	2011		2010	
	Assets	Liabilities	Assets	Liabilities
	US$'000	US$'000	US$'000	US$'000
Segment assets/liabilities	**1,083,135**		1,095,980	—
Unallocated:				
Deferred tax	**—**	**35,247**	—	32,430
Current income tax	**4,191**	**475**	7,960	2,087
Investment in associates	**1,845**	**—**	1,494	—
Inventories	**8,002**	**—**	6,918	—
Intangible assets	**150**	**—**	331	—
Current borrowings	**—**	**170,731**	—	191,149
Non-current borrowings	**—**	**208,381**	—	327,890
Deferred gains	**—**	**—**	—	150
Property, plant and equipment	**23,036**	**—**	16,232	—
Receivables	**226,732**	**—**	248,723	—
Payables	**—**	**63,959**	—	77,670
Cash and cash equivalents	**120,757**	**—**	137,703	—
Total	**1,467,848**	**478,793**	1,515,341	631,376

5. SEGMENTAL INFORMATION (Continued)

Geographic information

Revenues from external customers

	2011 US$'000	2010 US$'000
Revenue		
Russia	**1,663,637**	1,325,323
Estonia	**29,691**	32,765
Finland	**32,698**	24,257
Ukraine	**7,030**	325
	1,733,056	1,382,670

The revenue information above is based on the location where the sale has originated, i.e. on the location of the respective subsidiary of the Group.

In the periods set out below, certain customers, all within tank cars operating segment and included within the revenue generated in Russia, accounted for greater than 10% of the Group's total revenues:

	2011		2010	
	US$'000	% revenue	US$'000	% revenue
Revenue				
Customer A	**577,805**	**33**	496,503	36

Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts

	2011 US$'000	2010 US$'000
Non-current assets		
Russia	**982,229**	977,581
Estonia	**174,681**	164,212
Ukraine	**25,151**	2,439
Latvia	**1,845**	1,494
Cyprus	**37**	36
	1,183,943	1,145,762

Analysis of revenue by category

	2011 US$'000	2010 US$'000
Railway transportation—operators services (tariff borne by the Group)	**929,945**	810,661
Railway transportation—operators services (tariff borne by the client)	**721,850**	499,052
Railway transportation—freight forwarding	**3,422**	1,858
Operating lease of rolling stock	**76,555**	70,539
Other	**1,284**	560
Total revenue	**1,733,056**	1,382,670

Note: Revenue from railway transportation—operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2011 amounting to US$556,030 thousand (for the year ended 31 December 2010: US$479,671 thousand)

6. EXPENSES BY NATURE

	2011	2010
	US$'000	US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**556,030**	479,671
Empty run trips, other tariffs and services provided by other transportation organisations	**299,384**	232,586
Operating lease rentals—rolling stock	**132,570**	87,469
Employee benefit expense	**19,561**	13,412
Repair and maintenance	**76,243**	63,673
Depreciation of property, plant and equipment	**73,991**	62,039
Amortisation of intangible assets	**179**	173
Fuel and spare parts—locomotives	**27,708**	21,261
Engagement of locomotive crews	**12,684**	11,296
Loss on sale of property, plant and equipment	**1,314**	2,158
Reversal of impairment charge for property, plant and equipment	**(172)**	(650)
Other expenses	**11,335**	8,340
	1,210,827	981,428

	2011	2010
	US$'000	US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**1,061**	978
Gain on sale of property, plant and equipment	**(70)**	(117)
Employee benefit expense	**42,622**	33,028
Impairment charge of receivables	**125**	1,474
Operating lease rental—office	**4,820**	4,362
Auditors' remuneration	**1,362**	1,262
Legal, consulting and other professional fees	**9,341**	3,298
Advertising and promotion	**554**	570
Communication costs	**1,122**	1,078
Information services	**1,637**	1,385
Taxes (other than income tax and value added taxes)	**19,533**	16,141
Other expenses	**11,298**	11,458
	93,405	74,917

6. EXPENSES BY NATURE (Continued)

	2011 US$'000	2010 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**75,052**	63,017
Amortisation of intangible assets (Note 13)	**179**	173
Loss on sale of property, plant and equipment (Note 12)	**1,244**	2,041
Employee benefit expense (Note 8)	**62,183**	46,440
Impairment charge for receivables (Note 18)	**125**	1,474
Reversal of impairment charge for property, plant and equipment	**(172)**	(650)
Operating lease rentals—rolling stock	**132,570**	87,469
Operating lease rentals—office	**4,820**	4,362
Repairs and maintenance	**76,243**	63,673
Fuel and spare parts—locomotives	**27,708**	21,261
Engagement of locomotive crews	**12,684**	11,296
Infrastructure and locomotive tariffs:		
Loaded trips	**556,030**	479,671
Empty run trips, other tariffs and services provided by other transportation organisations	**299,384**	232,586
Auditors' remuneration	**1,362**	1,262
Legal, consulting and other professional fees	**9,341**	3,298
Advertising and promotion	**554**	570
Communication costs	**1,122**	1,078
Information services	**1,637**	1,385
Taxes (other than income tax and value added taxes)	**19,533**	16,141
Other expenses	**22,633**	19,798
Total cost of sales, selling and marketing costs and administrative expenses	**1,304,232**	1,056,345

Note: The auditors' remuneration stated above include fees of US$457 thousand (2010: US$427 thousand) for audit services charged by the Company's statutory audit firm. The rest of the auditor's remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

7. OTHER GAINS—NET

	2011 US$'000	2010 US$'000
Other gains	**6,435**	2,801
Other losses	**(4,223)**	(292)
Recognised deferred gains	**156**	333
Net foreign exchange gains (Note 11)	**772**	206
Total other gains—net	**3,140**	3,048

Note: 'Other gains' include penalties receivable by the Group for the idle time of railcars payable by the Group's customers in accordance with the terms of the agreements for transportation services in the amount of US$4,611 thousand (2010: US$1,674 thousand). 'Other losses' include the amount of US$3,964 thousand recognised in relation to the claim brought by Eesti Raudtee (Estonian Railways) against the subsidiary of the Company the outcome of which was determined in 2011 net of the indemnification received by the parent company. This loss is wholly attributable to non-controlling interest (Note 28).

8. EMPLOYEE BENEFIT EXPENSE

	2011	2010
	US$'000	US$'000
Wages and salaries	**33,758**	25,933
Bonuses	**22,996**	16,640
Social insurance costs	**5,429**	3,867
Total employee benefit expense	**62,183**	46,440
Average number of employees	**998**	944

9. FINANCE INCOME AND COSTS

	2011	2010
	US$'000	US$'000
Interest expense:		
Bank borrowings	**(23,313)**	(24,951)
Non-convertible bond	**(8,424)**	(3,906)
Finance leases	**(4,325)**	(13,524)
Other interest—related parties (Note 30)	**—**	(348)
Other finance costs	**(664)**	(927)
Total interest expense	**(36,726)**	(43,656)
Net foreign exchange transaction losses on financing activities (Note 11)	**(2,046)**	(7,450)
Finance cost on liability for minimum dividend distribution	**(1,163)**	(2,003)
Finance costs	**(39,935)**	(53,109)
Interest income:		
Bank balances	**634**	320
Short term bank deposits	**2,498**	686
Finance leases	**4,230**	5,234
Loans to third parties	**—**	2
Total interest income	**7,362**	6,242
Amortisation of financial guarantees	**—**	961
Finance income	**7,362**	7,203
Net finance costs	**(32,573)**	(45,906)

Note: interest income from finance leases for the year ended 31 December 2011 includes additional finance income in the amount of US$1,914 thousand recognised as a result of the early termination of finance lease arrangement (Note 18).

10. INCOME TAX EXPENSE

	2011	2010
	US$'000	US$'000
Current tax:		
Corporation tax	**70,484**	48,891
Withholding tax on dividends for which no deferred tax was recognised	**4,282**	1,860
Defence contribution	**1**	3
Total current tax	**74,767**	50,754
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**7,916**	6,979
Impact of change in the Ukrainian tax rate	**(90)**	—
Total deferred tax	**7,826**	6,979
Income tax expense	**82,593**	57,733

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

	2011	2010
	US$'000	US$'000
Profit before tax	**399,819**	283,673
Tax calculated at domestic tax rates applicable to profits in the respective countries	**73,764**	50,459
Tax effects of:		
Expenses not deductible for tax purposes	**1,110**	1,305
Allowances and income not subject to tax	**(790)**	(85)
Utilisation of previously unrecognised tax losses	**—**	(34)
Tax losses for which no deferred tax asset was recognised	**—**	16
Re-measurement of deferred tax liability—change in the Ukrainian tax rate	**(90)**	—
Defence contribution	**1**	3
Withholding tax on dividends for which no deferred tax provision was recognised	**4,282**	1,860
Dividend withholding tax provision (Note 25)	**4,316**	4,209
Tax charge	**82,593**	57,733

The weighted average applicable tax rate was 18.4% in 2011 (2010: 17.8%). The increase in the average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

The Company is subject to corporation tax on taxable profits at the rate of 10%. Under certain conditions, interest may be exempt from income tax and be subject to defence contribution at the rate of 10% for interest earned until 31 August 2011 and 15% thereafter. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013.

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 2009: 21⁄79) of net dividend paid. Therefore, the applicable income tax rate for Estonian subsidiaries is zero per cent.

10. INCOME TAX EXPENSE (Continued)

For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25% until 31 March 2011 and at a tax rate of 23% thereafter.

The Group has not recognised any tax in relation to other comprehensive income as all elements of other comprehensive income are not subject to tax.

11. NET FOREIGN EXCHANGE LOSSES

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

	2011	2010
	US$'000	US$'000
Net finance costs (Note 9)	**(2,046)**	(7,450)
Other gains—net (Note 7)	**772**	206
	(1,274)	(7,244)

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 2010						
Cost	1,115,161	2,605	2,952	2,181	6,290	1,129,189
Accumulated depreciation	(218,960)	(524)	(1,746)	—	(2,484)	(223,714)
Net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Year ended 31 December 2010						
Opening net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Additions	286,199	45	985	2	1,019	288,250
Disposals	(2,125)	—	(30)	—	(46)	(2,201)
Depreciation charge	(61,243)	(192)	(569)	—	(1,013)	(63,017)
Transfers	2,171	—	—	(2,171)	—	—
Reversal of impairment charge on property, plant and equipment	650	—	—	—	—	650
Currency translation differences	(16,823)	(40)	(9)	(10)	(63)	(16,945)
Closing net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
At 31 December 2010						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	—	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 2011						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	—	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
Additions	131,598	7	827	6	471	132,909
Disposals	(5,561)	—	(57)	—	(145)	(5,763)
Depreciation charge	(73,176)	(204)	(658)	—	(1,014)	(75,052)
Transfers	539	—	—	—	(539)	—
Reversal of impairment charge on property, plant and equipment	172	—	—	—	—	172
Currency translation differences	(58,036)	(77)	(89)	(1)	(104)	(58,307)
Closing net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171
At 31 December 2010						
Cost	1,415,495	2,480	3,471	7	5,456	1,426,909
Accumulated depreciation	(314,929)	(860)	(1,865)	—	(3,084)	(320,738)
Net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171

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

	2011	2010
	US$'000	US$'000
Net book amount	**5,763**	2,201
Loss on sale of property, plant and equipment (Note 6)	**(1,244)**	(2,041)
Consideration from sale of property, plant and equipment	**4,519**	160

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

	2011	2010
	US$'000	US$'000
Cash consideration received within year	**4,526**	185
Movement in advances received in accounts payable for sales of property, plant and equipment	**(7)**	(25)
	4,519	160

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

	2011	2010
	US$'000	US$'000
Cost—capitalised finance leases	**182,789**	259,634
Accumulated depreciation	**(45,356)**	(60,246)
	137,433	199,388

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2011	2010
	US$'000	US$'000
Rolling stock	**137,288**	199,158
Motor vehicles	**145**	230
	137,433	199,388

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 (excluding finance lease liabilities) are as follows (Note 24):

	2011	2010
	US$'000	US$'000
Rolling stock	**303,894**	396,049

Depreciation expense of US$73,991 thousand in 2011 (2010: US$62,039 thousand) have been charged to "cost of sales" and US$1,061 thousand in 2011 (2010: US$978 thousand) have been charged to administrative expenses.

13. INTANGIBLE ASSETS

	Computer software	Total
	US$'000	US$'000
At 1 January 2010		
Cost	521	521
Accumulated amortisation and impairment	(14)	(14)
Net book amount	507	507
Year ended 31 December 2010		
Opening net book amount	507	507
Amortisation charge (Note 6)	(173)	(173)
Currency translation differences	(3)	(3)
Closing net book amount	331	331
At 31 December 2010		
Cost	518	518
Accumulated amortisation and impairment	(187)	(187)
Net book amount	331	331
Year ended 31 December 2011		
Opening net book amount	331	331
Amortisation charge (Note 6)	(179)	(179)
Currency translation differences	(2)	(2)
Closing net book amount	150	150
At 31 December 2011		
Cost	490	490
Accumulated amortisation and impairment	(340)	(340)
Net book amount	150	150

14. INVESTMENT IN ASSOCIATE

	2011	2010
	US$'000	US$'000
At beginning of year	**1,494**	1,386
Share of profit after tax	**428**	206
Foreign exchange difference (loss)/gain	**(77)**	(98)
At end of year	**1,845**	1,494

The Group's share of the results of its associate, which is listed on 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
		US$'000	US$'000	US$'000	US$'000	
2011						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	6,484	3,490	8,472	428	25.27
2010						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,009	3,515	7,054	206	25.27

15. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interests in subsidiaries

On 4 November 2011, the Company acquired 1,000 newly issued shares in its subsidiary, Ingulana Holdings Limited, for a total cash consideration of US$74,500 thousand, thereby increasing its holding in that company to 60%.

On 10 November 2011, Ingulana Holdings Limited acquired the remaining 10% of the issued shares of Ultracare Holdings Limited, a subsidiary of the Company which holds a 100% share in LLC BaltTransServis for a total cash consideration of US$74,500 thousand.

As a result of the above transactions the Group has effectively acquired 10% additional interest in LLC BaltTransServis and was released from an obligation for the minimum dividends distribution that it has recognized in 2009 in relation to future profits of Ultracare Holdings Limited and LLC BaltTransServis.

The carrying amount of non-controlling interest in Ultracare Holdings Limited and LLC BaltTransServis on the date of acquisition was US$10,834 thousand and the carrying amount of liability for the minimum dividends distribution on the date of the extinguishment of such liability was US$11,588 thousand. The Group derecognized non-controlling interests of US$10,834 thousand, liability for the minimum dividends distribution of US$11,588 thousand and recorded a decrease in retained earnings attributable to owners of the Company of US$52,078 thousand in respect of this acquisition.

On 1 December 2011, the Company acquired from its Parent entity 1,700 shares in AS Spacecom, representing 4.25% of the issued shares of that company for a total cash consideration of US$7,200 thousand. The carrying amount of the non-controlling interest on the date of acquisition was US$5,073 thousand. The Group derecognized non-controlling interests of US$5,073 thousand and recorded a decrease in retained earnings attributable to owners of the Company of US$2,127 thousand in respect of this acquisition.

There were no transactions with non-controlling interests in 2010.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	2011		2010	
	Loans and receivables	Total	Loans and receivables	Total
	US$'000	US$'000	US$'000	US$'000
Financial assets as per balance sheet				
Trade and other receivables	**53,268**	**53,268**	93,925	93,925
Cash and cash equivalents	**120,757**	**120,757**	137,703	137,703
Total	**174,025**	**174,025**	231,628	231,628

Note: trade and other receivables do not include prepayments and taxes.

	2011		2010	
	Financial liabilities measured at amortised cost	Total	Financial liabilities measured at amortised cost	Total
	US$'000	US$'000	US$'000	US$'000
Financial liabilities as per balance sheet				
Borrowings	**379,112**	**379,112**	519,039	519,039
Trade and other payables	**12,244**	**12,244**	29,607	29,607
Total	**391,356**	**391,356**	548,646	548,646

Note: trade and other payables do not include advances, statutory liabilities and provisions for employees' benefits.

17. 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:

	2011	2010
	US$'000	US$'000
Trade and other receivables		
Counterparties with external credit rating		
Fitch's (B+)	**—**	4,407
Moody's (A2)	**—**	2,828
Standard & Poor's (BBB−)	**7,806**	6,928
	7,806	14,163

	2011	2010
	US$'000	US$'000
Counterparties without external credit rating		
Group 1	**28,092**	59,588
Group 2	**832**	1,208
	28,924	60,796
Total trade and other receivables	**36,730**	74,959

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

	Rating	2011	2010
		US$'000	US$'000
Moody's[(2)]	Aaa—A1	**45,232**	38,466
Moody's[(2)]	Baa1—B3	**59,516**	57,410
Standard & Poor's[(3)]	BBB+—BBB−	**15,996**	41,796
Fitch[(4)]	B+—B−	**—**	1
Other non-rated banks		**10**	27
Total cash at bank and bank deposits[(1)]		**120,754**	137,700

(1) The rest of the balance sheet item Cash and cash equivalents is cash on hand

(2) International rating agency Moody's Investors Service

(3) International rating agency Standard & Poor's

(4) International rating agency Fitch Rating

18. TRADE AND OTHER RECEIVABLES

	2011	2010
	US$'000	US$'000
Trade receivables—third parties	**38,552**	42,980
Trade receivables—related parties (Note 30)	**15,129**	12,701
Less: Provision for impairment of trade receivables	**(1,467)**	(1,645)
Trade receivables—net	**52,214**	54,036
Other receivables	**1,427**	4,658
Other receivables—related parties (Note 30)	**33**	1
Less: Provision for impairment of other receivables	**(406)**	(676)
Other receivables—net	**1,054**	3,983
Prepayments—related parties (Note 30)	**2,848**	7,917
Prepayments—third parties	**116,558**	74,544
Finance lease receivables—third parties	**—**	35,906
VAT recoverable	**54,058**	72,337
	226,732	248,723

	2011	2010
	US$'000	US$'000
Less non-current portion:		
Prepayments for property, plant and equipment	**75,777**	31,665
Finance lease receivables—third parties	**—**	32,637
VAT Recoverable	**—**	63
Total non-current portion	**75,777**	64,365
Current portion	**150,955**	184,358

According to the managements estimates, fair values of trade and other receivables do not materially differ from their carrying amounts.

In July 2011 the Group concluded an agreement for early termination of finance lease arrangement. The settlement of the finance lease receivable in the total amount of US$35,905 thousand was received in August 2011. As a result of the early termination the Group has recognized a gain in the amount of US$1,914 thousand included within 'finance income' (Note 9).

Non-current receivables as at 31 December 2011 represent prepayment for the acquisition of rolling stock which is due to be delivered until the end of March 2012.

Receivables amounting to US$36,730 thousand as of 31 December 2011 were fully performing (2010: US$74,959 thousand).

Receivables of US$16,538 thousand as of 31 December 2011 were past due but not impaired (2010: US$18,966 thousand). 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.

18. TRADE AND OTHER RECEIVABLES (Continued)

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

	2011	2010
	US$'000	US$'000
Less than 1 month	**14,427**	17,346
From 1 to 3 months	**1,156**	1,032
From 3 to 6 month	**680**	303
From 6 months to 1 year	**156**	120
Over one year	**119**	165
	16,538	18,966

Trade receivables amounting to US$1,467 thousand as of 31 December 2011, were impaired and provided for in full (2010: US$1,645 thousand). 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.

Other receivables amounting to US$406 thousand as of 31 December 2011, were impaired and provided for in full (2010: US$676 thousand). 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:

	2011	2010
	US$'000	US$'000
Currency:		
US dollar	**26,679**	68,737
Russian Rubles	**194,611**	175,361
Euro	**667**	3,834
Other	**4,775**	791
	226,732	248,723

Movements on the Group's provision for impairment of trade and other receivables are as follows:

	2011			2010		
	Trade receivables	Other receivables	Total	Trade receivables	Other receivables	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January	**1,645**	**676**	**2,321**	3,285	544	3,829
Provision for receivables impairment (Note 6)	**199**	**160**	**359**	1,233	249	1,482
Bad debt written off	**(174)**	**(312)**	**(486)**	(2,815)	(112)	(2,927)
Unused amounts reversed (Note 6)	**(130)**	**(104)**	**(234)**	(8)	—	(8)
Currency translation differences	**(73)**	**(14)**	**(87)**	(50)	(5)	(55)
At 31 December	**1,467**	**406**	**1,873**	1,645	676	2,321

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.

18. TRADE AND OTHER RECEIVABLES (Continued)

The finance lease receivables are scheduled as follows:

	Less than 1 year	Between 1 to 5 years	Over 5 years	Total
	US$'000	US$'000	US$'000	US$'000
At 31 December 2011				
Minimum lease receivable	—	—	—	**—**
Less: Unearned finance income	—	—	—	**—**
Present value of minimum lease receivables	—	—	—	**—**
At 31 December 2010				
Minimum lease receivable	7,774	32,790	13,478	**54,042**
Less: Unearned finance income	(4,504)	(12,221)	(1,411)	**(18,136)**
Present value of minimum lease receivables	3,270	20,569	12,067	**35,906**

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$nil (2010: US$ 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:

	2011	2010
	US$'000	US$'000
Receivable within one year	**—**	3,269
Receivable later than one year and not later than 5 years	**—**	20,570
Receivable later than 5 years	**—**	12,067
Total	**—**	35,906

The average effective interest rate implicit in finance lease agreements at 31 December 2010 was 13.04%.

19. INVENTORIES

	2011	2010
	US$'000	US$'000
Raw materials and consumables	**8,002**	6,918
	8,002	6,918

All inventories are stated at cost.

20. CASH AND CASH EQUIVALENTS

	2011	2010
	US$'000	US$'000
Cash at bank and in hand	**84,252**	54,006
Short term bank deposits	**36,505**	83,697
	120,757	137,703

20. CASH AND CASH EQUIVALENTS (Continued)

The effective interest rate on short-term deposits was 5.37% in 2011 (2010: 2.95%) and these deposits have a maturity of 10 to 32 days (2010: 11 to 30 days).

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

	2011	2010
	US$'000	US$'000
Cash and cash equivalents	**120,757**	137,703
Bank overdrafts (Note 24)	**(1,037)**	(745)
Total cash and cash equivalents	**119,720**	136,958

The effective interest rate on bank overdrafts in 2011 was 2.19% (2010: 2.26%).

Cash and cash equivalents are denominated in the following currencies:

	2011	2010
	US$'000	US$'000
Russian Ruble	**60,789**	96,685
US Dollar	**59,742**	38,535
Euro	**33**	130
Estonian Kroon	**—**	1,738
Ukrainian Hryvna	**193**	613
Swiss Francs	**—**	2
Total cash and cash equivalents	**120,757**	137,703

21. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital	Share premium	Total
		US$'000	US$'000	
At 1 January 2010/31 December 2010/31 December 2011	158,135,533	15,814	621,227	637,041

The total authorised number of ordinary shares at 31 December 2011 and 31 December 2010 was 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

22. DIVIDENDS

Dividends paid in 2011 and 2010 were US$58,510,147 (US$0.37 per share) and US$24,000,230 (US$0.15 per share) respectively.

At the Annual General Meeting which will take place in May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of shares issued (excluding treasury shares) as of the date of authorisation of these financial statements is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2012.

During the year ended 31 December 2011, the Group declared and paid US$26,078 thousand (2010: US$21,157 thousand) of dividends in favour of non-controlling interests. Pursuant to the obligation for minimum dividend distribution by Ultracare Holdings Limited and LLC BaltTransServis US$1,163 thousand (2010: US$2,003 thousand) was recognised as finance cost and the remaining US$24,915 thousand (2010: US$19,154 thousand) was recognised as dividends.

23. DEFERRED GAINS

	2011 US$'000	2010 US$'000
Current	**—**	150
Non-current	**—**	—
	—	150

Deferred gains represent gains deferred from sale and finance leaseback transactions entered by the Group for refinancing the purchase of rolling stock.

24. BORROWINGS

	2011 US$'000	2010 US$'000
Current		
Bank overdrafts (Note 20)	**1,037**	745
Bank borrowings	**123,050**	119,601
Non-convertible unsecured bonds	**20,032**	21,528
Finance lease liabilities	**26,612**	49,275
Total current borrowings	**170,731**	191,149
Non-current		
Bank borrowings	**131,180**	219,426
Non-convertible unsecured bonds	**55,661**	78,397
Finance lease liabilities	**21,540**	30,067
Total non-current borrowings	**208,381**	327,890
Total borrowings	**379,112**	519,039
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**69,432**	117,346
Between 2 and 5 years	**115,111**	174,820
Over 5 years	**2,298**	5,657
	186,841	297,823

Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset reverts to the lessor in the event of default.

	2011 US$'000	2010 US$'000
Finance lease liabilities—minimum lease payments		
Not later than 1 year	**27,912**	54,161
Later than 1 year and not later than 5 years	**22,241**	31,383
Future finance charges of finance leases	**(2,001)**	(6,202)
Present value of finance lease liabilities	**48,152**	79,342
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**26,612**	49,275
Later than 1 year and not later than 5 years	**21,540**	30,067
	48,152	79,342

24. BORROWINGS (Continued)

Bank borrowings

Bank borrowings mature by 2017 and bear average interest of 8.8% per annum (2010: 8.2% per annum).

There were no defaults or breaches of loan terms during the year ended 31 December 2011 and 31 December 2010.

The current and non-current bank borrowings amounting to US$92,646 thousand and US$130,868 thousand respectively (2010: US$118,771 thousand and US$211,662 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$30,716 thousand (2010: US$8,594 thousand) are unsecured.

The bank and financial institutions loans of a total amount of US$223,514 thousand (2010: US$330,433 thousand) are secured by property, plant and equipment at the carrying net book value of US$303,894 thousand (2010: US$396,049 thousand) (Note 12).

Non-convertible bonds

Non-convertible Russian ruble denominated bonds issued by a subsidiary of the Group carry a coupon rate of 9.25% and has an amortising structure with final maturity in 2015.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet dates are as follows:

	2011	2010
	US$'000	US$'000
6 months or less	**179,950**	297,776
6 to 12 months	**35,747**	58,551
1 to 5 years	**161,117**	157,055
over 5 years	**2,298**	5,657
	379,112	519,039

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

	Carrying amount		Fair value	
	2011	2010	2011	2010
	US$'000	US$'000	US$'000	US$'000
Bank borrowings	**131,180**	219,426	**131,180**	219,426
Non-convertible unsecured bonds	**55,661**	78,397	**55,343**	79,551
Finance lease liabilities	**21,540**	30,067	**21,540**	29,566
	208,381	327,890	**208,063**	328,543

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values of bank borrowings and finance lease liabilities are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime[(1)] rates. The fair value of non-convertible bonds, which are listed on MICEX[(2)], is based on the latest quoted price for such bonds.

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

(2) Moscow Interbank Currency Exchange

24. BORROWINGS (Continued)

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

	2011	2010
	US$'000	US$'000
US Dollar	**79,890**	113,115
Russian Ruble	**299,120**	405,753
Euro	**102**	171
	379,112	519,039

The Group has the following undrawn borrowing facilities:

	2011	2010
	US$'000	US$'000
Floating rate:		
Expiring within one year	**26,012**	37,384
Fixed rate:		
Expiring within one year	**86,452**	8,531
Expiring beyond one year	**—**	22,752
	112,464	68,667

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

	2011	2010
	%	%
Bank overdrafts	**2.2**	2.3
Bank borrowings	**8.8**	8.2
Non-convertible unsecured bonds	**9.3**	9.3
Finance lease liabilities	**5.0**	9.1

25. 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 taxable entity and fiscal authority. The offset amounts are as follows:

	2011	2010
	US$'000	US$'000
Deferred tax liabilities:		
—Deferred tax liability to be recovered after more than 12 months	**36,516**	34,122
—Deferred tax liability to be recovered within 12 months	**(1,269)**	(1,692)
Deferred tax liabilities (net)	**35,247**	32,430

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

	2011	2010
	US$'000	US$'000
Beginning of year	**32,430**	27,955
Income statement charge (Note 10)	**7,826**	6,979
Withholding tax on actual dividend distribution	**(2,859)**	(2,337)
Exchange differences	**(2,150)**	(167)
End of year	**35,247**	32,430

25. DEFERRED INCOME TAX (Continued)

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

Deferred tax liabilities	Property, plant and equipment	Lease liability	Tax losses	Trade and other payables	Withholding tax provision	Other assets	Other liabilities	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	40,474	(28,727)	(1,328)	(601)	7,806	11,304	(973)	27,955
Charged/(credited) to:								
Income statement (Note 10)	(12,617)	19,799	1,322	(980)	4,209	(5,240)	486	6,979
Withholding tax on actual dividend distribution	—	—	—	—	(2,337)	—	—	(2,337)
Currency translation differences	(261)	153	6	7	(8)	(70)	6	(167)
At 31 December 2010/1 January 2011	27,596	(8,775)	—	(1,574)	9,670	5,994	(481)	32,430
Charged/(credited) to:								
Income statement (Note 10)	2,339	7,423	—	1,032	4,316	(6,977)	(307)	7,826
Withholding tax on actual dividend distribution	—	—	—	—	(2,859)	—	—	(2,859)
Currency translation differences	(1,691)	(180)	—	(5)	(618)	289	55	(2,150)
At 31 December 2011	28,244	(1,532)	—	(547)	10,509	(694)	(733)	35,247

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$16 thousand in 2010 in respect of cumulative tax losses amounting to US$160 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.

Deferred income tax liabilities of US$55,602 thousand (2010: US$44,546 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings totaled US$501,313 thousand as at 31 December 2011 (2010: US$387,749 thousand).

26. TRADE AND OTHER PAYABLES

	2011	2010
	US$'000	US$'000
Current		
Trade payables to third parties	**10,620**	15,672
Trade payables to related parties (Note 30)	**454**	1,315
Other payables to third parties	**17,756**	13,257
Accrued expenses	**6,954**	9,530
Advances from customers for transportation services	**26,796**	24,400
Advances from related parties for transportation services (Note 30)	**1,379**	3,029
	63,959	67,203
Non-current		
Other payables to third parties	**—**	10,467
	—	10,467

Note: advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services. 'Other payables' as at 31 December 2010 include liability for minimum dividend distribution obligation to non-controlling shareholders which are not at the discretion of the Group.

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

27. 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.

	2011	2010
Profit attributable to equity holders of the company (US$ thousand)	**266,423**	177,322
Weighted average number of ordinary shares in issue (thousand)	**158,136**	158,136
Basic and diluted earnings per share (expressed in US$ per share)	**1.68**	1.12

28. 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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment.

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 international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Debtors and borrowers of the Group and suppliers to whom advances have been made for delivery of property, plant and equipment 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, debtors, lessees and suppliers 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.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. 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 which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the

28. CONTINGENCIES (Continued)

Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to 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 of 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. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Based on the results of tax inspection of OOO Sevtekhnotrans, a subsidiary of the Company, for 2008-2009 which was carried out in 2010 tax authorities have claimed additional income tax and VAT. The tax authorities argued that the above underpayment occurred due to the fact that OOO Sevtekhnotrans leased out tank wagons to OJSC New Forwarding Company, another subsidiary of the Company, applying rent rates below market level. OOO Sevtekhnotrans has filed an objection and in July 2011 received a positive ruling from the Ministry of Finance of Russia in respect of this claim, therefore no provision has been recognised in respect of this claim in these 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 2011 and 31 December 2010 (Note 24).

28. CONTINGENCIES (Continued)

Insurance policies

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

Environmental matters

The enforcement of environmental regulation in the 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.

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. During the year ended 31 December 2007 LLC BaltTransServis, a subsidiary of the Company, provided a guarantee to Sberbank RF for a long-term loan received by a third party. The guarantee was provided free of charge, was limited to US$45,000 thousand per year and was issued for a period of 5 years. The guarantee was initially recognised at estimated fair value of US$3,536 thousand. The obligation of the third party was settled in full in May 2010; consequently, the guarantee to Sberbank RF was cancelled at the same time. Amortisation of the guarantee in amount of US$961 thousand was recorded in the income statement for the year ended 31 December 2010.

As at 31 December 2011 the carrying value of the guarantee was NIL (2010: NIL).

Legal proceedings

During the year ended 31 December 2011, the Group was involved as a claimant and defendant in a number of court proceedings.

During the year ended 31 December 2010, AS Spacecom, a subsidiary of the Company was involved in court proceedings with AS Eesti Raudtee (Estonian Railways). In January 2011, Tallinn Circuit Court (court of second instance) published a ruling which satisfied the claim of Estonian Railways against AS Spacecom in the amount of EUR15,078 thousand (USD19,509 thousand at 31 December 2011 exchange rates) for the unpaid invoices and late payment charges, plus costs and legal fees. In May 2011, the Court of third instance has declined an application for an appeal submitted by AS Spacecom and consequently the decision of the Tallinn Circuit Court came into force. The Group was indemnified for up to 61% of any losses arising from this case over and above the amounts already provided in the consolidated financial statements of the Group pursuant to the indemnification clauses included in the share purchase agreements in relation to this litigation. The net amount of the claim which was not previously provided for in the consolidated financial statements of the Group less amounts compensated in accordance with such indemnification clauses was recognised in these consolidated financial statements in a total amount of EUR2,848 thousand (USD3,964 thousand at 31 December 2011 exchange rates). Such amount was attributed solely to non-controlling interests and therefore had no impact on profit attributable to equity owners of the Group or on Earnings per share. The claim was settled in full by the Group and respective indemnity was received during the year ended 31 December 2011.

In July 2011 the Group received a notice of a claim in relation to 240 railcars, which a subsidiary of the Company acquired through finance lease in July 2010. The claim suggests that such railcars were not released from pledge by the lessor upon transfer to the Group and due to the fact that the lessor defaulted on its obligations to the pledgee, the claim was brought against the subsidiary of the Company being the current owner of the pledged railcars. Two law suits are in progress in relation to this matter, one in

28. CONTINGENCIES (Continued)

Moscow City Arbitration Court in Russia and a second one in the Moldova Republic. In February 2012 the subsidiary of the Company has received a positive ruling from Moscow City Arbitration Court in respect of this claim. Following this decision the pledgee's right in relation to pledged assets was confirmed as non-negotiable. The case in Moldova Republic is still pending in court.

The net book value of the railcars involved in the above claim as at 31 December 2011 was RR230,684 thousand (US$7,165 thousand at 31 December 2011 exchange rates). Based on current facts and circumstances, management believes that it is not probable that the Group will incur outflow of economic resources as a result of this claim, consequently, no provision has been recorded in these consolidated financial statements.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2011 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.

29. COMMITMENTS

(a) Capital commitments

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

	2011	2010
	US$'000	US$'000
Property, plant and equipment	**205,595**	—

(b) Operating lease commitments—Group as lessee

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

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease terms are generally between two months to one year. 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:

	2011	2010
	US$'000	US$'000
Not later than 1 year	**49,523**	117,261
Later than 1 year not later than 5 years	**12,062**	22,645
	61,585	139,906

(c) Operating lease commitments—Group as lessor

	2011	2010
	US$'000	US$'000
Not later than 1 year	**60,766**	7,360
Later than 1 year not later than 5 years	**5,397**	1,549
	66,163	8,909

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.

29. COMMITMENTS (Continued)

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2011 (2010: US$nil).

30. 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 14.5% (including the holding of GDRs of the Company) of the Company's shares. Further, the Directors of the Company control 0.1% of the Company's shares through their holdings of GDRs. The remaining 35.3% 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 Mirbay International Inc., which is registered in Bahamas.

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

	2011	2010
	US$'000	US$'000
Sales of services:		
Associate	—	3
The Parent		—
Other related parties:		
Entities under control of the Parent	**29,215**	23,599
Entities under significant influence of the Parent	**13,281**	27,618
Entities under significant influence of members of key management	**113,896**	83,201
	156,392	134,421

(b) Purchases of goods and services

	2011	2010
	US$'000	US$'000
Purchases of services:		
Associate	**398**	324
Other related parties		
Entities under control of the Parent	**4,475**	3,484
Entities under control by parties with significant influence over the Group	**1,089**	1,053
Entities under significant influence of the Parent	**457**	2,399
Entities under significant influence of members of key management	**21,432**	25,524
	27,851	32,784

30. RELATED PARTY TRANSACTIONS (Continued)

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

	2011	2010
	US$'000	US$'000
Additions:		
Other related parties		
Entities under control of the Parent	**1,737**	882
Entities under significant influence of members of key management	**216**	415
	1,953	1,297
Disposals:		
Other related parties: entities under significant influence of members of key management	**—**	8

(d) Interest income and expenses

	2011	2010
	US$'000	US$'000
Interest expense (Note 9):		
The parent	**—**	(899)
	—	(899)

Interest expense to the parent in the year ended 31 December 2010 consists of interest on consideration payable for the acquisition of Estonian subsidiaries of the Group for the amount of US$348 thousand and unwinding of discounting effect on such liability for the amount of US$551 thousand included in Other finance costs.

(e) Key management compensation

	2011	2010
	US$'000	US$'000
Key management salaries and other short term employee benefits	**21,065**	17,952
	21,065	17,952

Note: 'key management salaries and other short term employee benefits' include bonuses amounting to US$14,960 thousand for the year ended 31 December 2011 (2010: US$11,629 thousand) and directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to US$2,388 thousand (2010: US$1,396 thousand).

30. RELATED PARTY TRANSACTIONS (Continued)

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

	2011 US$'000	2010 US$'000
Trade receivable from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	**7,738**	3,110
Entities under significant influence of the Parent	**—**	1,305
Entities under significant influence of members of key management	**6,991**	7,898
	14,729	12,313
Other receivables from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	**32**	—
Entities under significant influence of the Parent	**—**	1
Entities under significant influence of members of key management	**1**	—
	33	1
Prepayments to related parties (Note 18):		
Other related parties		
Entities under control of the Parent	**375**	361
Entities under significant influence of members of key management	**2,473**	7,556
	2,848	7,917
Trade payables to related parties (Note 26):		
Other related parties		
Entities under control of the Parent	**212**	6
Entities under significant influence/joint control of the Parent	**—**	13
Entities under significant influence of members of key management	**242**	1,296
	454	1,315
Advances from related parties (Note 26):		
Other related parties		
Entities under control of the Parent	**98**	2,038
Entities under significant influence of the Parent	**—**	255
Entities under significant influence of members of key management	**1,281**	736
	1,379	3,029

(g) Other transactions with related parties

Year ended 31 December 2011

- In December 2011 the Company acquired an additional stake of 4.25% of shares in AS Spacecom, subsidiary of the Company, from its Parent entity for a total consideration of US$7,200 thousand bringing its shareholding in AS Spacecom to 65.25%. The carrying amount of the non-controlling interest acquired on the date of acquisition was US$5,073 thousand. The Group de-recognised non-controlling interests of US$5,073 thousand and recorded a decrease in equity attributable to owners of the Company of US$2,127 thousand.
- In September 2011 the Company received EUR4,455 thousand (US$6,345 thousand) from its Parent entity as compensation of 61% of losses of AS Spacecom suffered as a result of the legal claim which were not previously recognised in these consolidated financial statements (Note 28).

30. RELATED PARTY TRANSACTIONS (Continued)

Year ended 31 December 2010

- In accordance with the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Spacecom Trans (formerly AS Intopex Trans) and amendments thereto, in April 2010, the Company has settled in full its liability to the Parent including accrued interest.

(h) Operating lease commitments—Group as lessee

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

	2011	2010
	US$'000	US$'000
Not later than 1 year	**16,206**	15,682
Later than 1 year and not later than 5 years	**4,907**	1,555
	21,113	17,237

Operating lease commitments with 'other related parties' amounting to US$20,311 thousand were to entities under significant influence of members of key management (2010: US$16,198), with the rest of the commitments were to entities under control of the Parent.

(i) Operating lease commitments—Group as lessor

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

	2011	2010
	US$'000	US$'000
Not later than one year	**15**	9

All commitments on 31 December 2010 were from entities under control of the Parent.

31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2012 the Company, in accordance with the decision of the Extraordinary General Meeting which took place on 20 December 2011, has completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. The shares will be held in treasury for a maximum period of 24 months.

In March 2012, OJSC New Forwarding Company, a Russian subsidiary of the Company, has issued 3-year Russian rouble denominated exchange-traded bonds for a total amount of RUB10 billion (US$310,597 thousand at 31 December 2011 exchange rate) at a coupon rate of 10.00% per annum. Bonds are traded on MICEX in Moscow. The Company acts as the guarantor for the bond issue.

In January—April 2012 the Group:

— has contracted for 6,238 open wagons cars to be delivered until the end of June 2012;

— has received 6,431 open wagons and 590 tank cars contracted at the end of 2011 and in 2012;

— has received an equivalent of US$410,878 thousand of long-term bank borrowings (at 11 April 2012 exchange rates) of which RUB9,862,240 thousand (US$332,780 at 11 April 2012 exchange rates) were denominated in Russian roubles, remaining new borrowings were denominated in US Dollars and Euro.

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

Independent Auditor's Report on pages F-33 to F-34.

OOO Metalloinvesttrans

International Financial Reporting Standards
Financial Statements and Independent Auditor's Report
31 December 2011

CONTENTS

INDEPENDENT AUDITOR'S REPORT

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

TO THE PARTICIPANTS OF OOO METALLOINVESTTRANS:

We have audited the accompanying financial statements of OOO Metalloinvesttrans (the "Company") which comprise the statement of financial position as of 31 December 2011 and the statement of comprehensive income, statement of cash flows and statement of changes in net assets attributable to participants for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

29 March 2012

Moscow, Russian Federation

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OOO METALLOINVESTTRANS
STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2011
(in thousands of Russian roubles, unless otherwise stated)

	Note	31 December 2011	31 December 2010	1 January 2010
ASSETS				
Non-current assets:				
Property, plant and equipment	6	6,748,474	7,398,785	7,472,293
Loans advanced	7	—	4,000,000	—
Other non-current assets		9,589	23,255	39,835
Total non-current assets		**6,758,063**	**11,422,040**	**7,512,128**
Current assets:				
Inventories		23,492	20,388	20,508
Trade and other receivables	8	2,534,924	2,865,032	2,733,078
Current income tax prepayment		—	8,743	35,448
Cash and cash equivalents	9	1,128,330	79,803	191,662
Non-current assets held for sale	6	162,746	—	—
Total current assets		**3,849,492**	**2,973,966**	**2,980,696**
TOTAL ASSETS		**10,607,555**	**14,396,006**	**10,492,824**
LIABILITIES				
Non-current liabilities:				
Long-term borrowings	10	—	2,661,074	483,221
Finance lease liability	11	1,648,682	2,363,615	3,112,493
Deferred income tax liability	12	578,599	448,891	331,899
Total non-current liabilities		**2,227,281**	**5,473,580**	**3,927,613**
Current liabilities:				
Short-term borrowings	10	—	322,147	322,147
Finance lease liability	11	816,333	912,306	1,167,865
Accounts payable	13	3,638,732	935,429	399,162
Income tax payable		193,811	—	—
Value added tax and other taxes payable		18,457	9,167	17,739
Total current liabilities, excluding net assets attributable to participants		**4,667,333**	**2,179,049**	**1,906,913**
Net assets attributable to participants:				
Cash contribution from participants		10,000	10,000	10,000
Cumulative surplus of net assets		3,702,941	6,733,377	4,648,298
Total net assets attributable to participants	20	**3,712,941**	**6,743,377**	**4,658,298**
TOTAL LIABILITIES		**10,607,555**	**14,396,006**	**10,492,824**

Approved for issue and signed on 29 March 2012.

s/P.A. Mitrofanov

P.A. Mitrofanov
Chief Financial Officer
OOO Management Company
METALLOINVEST

s/E.E. Titova

E.E. Titova
Chief Accountant
OOO Metalloinvesttrans

The accompanying notes on pages F-98 to F-123 are an integral part of these financial statements.

OOO METALLOINVESTTRANS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Russian roubles, unless otherwise stated)

	Note	2011	2010
Revenue	14	17,163,512	19,769,436
Cost of sales	15	(13,003,196)	(16,330,992)
Gross profit		**4,160,316**	**3,438,444**
General and administrative expenses	16	(327,064)	(199,513)
Other operating expenses	17	(238,422)	(5,220)
Operating profit		**3,594,830**	**3,233,711**
Finance income	18	221,144	171,003
Finance costs	19	(6,194,120)	(787,014)
(Loss)/profit before income tax		**(2,378,146)**	**2,617,700**
Income tax charge	12	(652,290)	(532,621)
Change in net assets attributable to participants		**(3,030,436)**	**2,085,079**

The accompanying notes on pages F-98 to F-123 are an integral part of these financial statements.

OOO METALLOINVESTTRANS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Russian roubles, unless otherwise stated)

	2011	2010
Cash flows from operating activities		
(Loss)/profit before income tax	(2,378,146)	2,617,700
Adjustments for:		
Depreciation of property, plant and equipment	516,790	513,650
Finance costs (net)	5,972,976	616,011
Foreign exchange (gain)/loss	(15,559)	8,772
Other	(2,331)	3,193
Operating cash flow before changes in working capital	**4,093,730**	**3,759,326**
Inventories	(3,104)	120
Trade and other receivables	279,285	(147,185)
Trade and other payables	2,754,750	480,871
Cash generated from operations	**7,124,661**	**4,093,132**
Interest paid	(588,223)	(783,307)
Income tax paid	(279,028)	(388,924)
Net cash from operating activities	**6,257,410**	**2,920,901**
Cash flows from investing activities:		
Loans advanced	—	(5,700,000)
Repayment of loans advanced	4,000,000	1,700,000
Interest income received	241,007	151,139
Purchases of property, plant and equipment	(132,632)	(156,278)
Proceeds from the sale of property, plant and equipment	102,969	9,110
Net cash from/(used in) investing activities	**4,211,344**	**(3,996,029)**
Cash flows from financing activities:		
Proceeds from borrowings	—	5,000,000
Repayment of borrowings	(2,983,221)	(2,822,147)
Payment of finance lease liability	(842,200)	(1, 205,339)
Distribution to participants	(5,610,322)	—
Net cash (used in)/from financing activities	**(9,435,743)**	**972,514**
Effect of exchange rate changes on cash and cash equivalents	15,516	(9,245)
Net increase/(decrease) in cash and cash equivalents	**1,048,527**	**(111,859)**
Cash and cash equivalents at the beginning of the year	**79,803**	**191,662**
Cash and cash equivalents at the end of the year	**1,128,330**	**79,803**

The following non-cash transactions were excluded from investing activities:

	2011	2010
Non-cash investing activities		
Recognition of finance lease	—	(244, 807)
Total non-cash investing activities	**—**	**(244, 807)**

The accompanying notes on pages F-98 to F-123 are an integral part of these financial statements.

OOO METALLOINVESTTRANS

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Russian roubles, unless otherwise stated)

	Attributable to participants of the Company		
	Cash contribution from participants	Cumulative surplus of net assets	Total net assets attributable to participants
Balance at 1 January 2010	**10,000**	**4,648,298**	**4,658,298**
Change in net assets attributable to participants	—	2,085,079	2,085,079
Balance at 31 December 2010	**10,000**	**6,733,377**	**6,743,377**
Change in net assets attributable to participants	—	(3,030,436)	(3,030,436)
Balance at 31 December 2011	**10,000**	**3,702,941**	**3,712,941**

The accompanying notes on pages F-98 to F-123 are an integral part of these financial statements.

OOO METALLOINVESTTRANS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands of Russian roubles, unless otherwise stated)

1. GENERAL INFORMATION

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for OOO Metalloinvesttrans (the "Company").

As of 31 December 2011 and 2010 the Company's immediate and ultimate parent was OAO Holding Company METALLOINVEST (the "Parent"). The Company was managed by OOO Management Company METALLOINVEST, a subsidiary of the Parent.

The Company's principal business activities are rail freight transportation using own and leased rolling stock and other transportation services.

The Company was incorporated and is domiciled in the Russian Federation. The Company is a limited liability company and was set up in accordance with Russian regulations.

The Company's registered address is Lenina Street, bld. 25, Zheleznogorsk, Russia; the principal place of business is Korobeynikov pereulok, 1, bld. 1, Moscow, Russia.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements are the Company's first annual financial statements that comply with International Financial Reporting Standards ("IFRS"). The Company's IFRS transition date is 1 January 2010. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective for the year ended 31 December 2011. This version was applied in preparing the opening IFRS statement of financial position at 1 January 2010 and in subsequent periods up to the end of the first IFRS reporting period.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2010 and the preparation of an opening IFRS statement of financial position at 1 January 2010.

Net assets attributable to participants. The Company's equity participants have a right to request redemption of their interests in the Company in cash. The Company's obligation to redeem gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from the Company. As a practical expedient, the Company measures the liability presented as 'Net assets attributable to participants' at the IFRS carrying value of the Company's net assets. The liability is classified as current because the Company has no unconditional right to defer redemption for at least twelve months after the balance sheet date.

Distributions to participants are recorded as finance costs in the period in which they are declared and approved. Distributions to participants declared after the reporting period and before the financial statements are authorised for issue are disclosed in the Note "Events after the reporting period".

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount 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 Company and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss in the financial period in which they are incurred.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Rolling stock	22
Mounted wheels	7
Motor vehicles	7 to 10
Other	3 to 7

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Financial assets. The Company has only 'loans and receivables' category of financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables', 'loans advanced' and 'cash and cash equivalents' in the statement of financial position.

Loans and receivables are initially recognised at fair value plus transaction costs directly attributable to the acquisition or issue of the financial assets. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Loans and receivables are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired, such as significant financial difficulty of debtor; a default or delinquency in interest or principal payments. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events that occurred after the initial recognition of a financial asset.

For 'loans and receivables' the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through allowance account and the amount of the impairment loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss for the year.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. Inventories of the Company consist of raw materials. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Non-current assets classified as held for sale. Non-current assets are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Held for sale non-current assets are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated.

Financial liabilities. The Company's financial liabilities include accounts payable, finance lease liability and borrowings. These financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Income taxes. The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in Russian Federation, the country where the Company operated and generates taxable income. The income tax charge/credit comprises current tax and deferred

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

tax and is recognised in profit or loss for the year, except to the extent that it relates to transactions that are recognised in other comprehensive income or directly in net assets attributable to participants. In this case, the tax is also recognised in other comprehensive income or directly in net assets attributable to participants, respectively.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income 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 income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

The Company's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures 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.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Foreign currency translation. The functional currency of the Company is the currency of the primary economic environment in which the entity operates. The Company's functional and presentation currency is the national currency of the Russian Federation, Russian roubles ("RUB").

Monetary assets and liabilities are translated into the entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("the Central Bank") at the respective end of the reporting period. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

At 31 December 2011 the principal exchange rates used for translating foreign currency balances were USD 1 = RUB 32.1961 (31 December 2010: USD 1 = RUB 30.4769; 1 January 2010: USD 1 = RUB 30.2442), EUR 1 = RUB 41.6714 (31 December 2010: EUR 1 = RUB 40.3331; 1 January 2010: EUR 1 = RUB 43.3883).

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for rendering services and sales of goods in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns and discounts.

The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Revenues earned by the Company are recognized on the following basis:

Revenues from railway transportation—using own or leased rolling stock. The Company organizes transportation services for clients using its own or leased rolling stock. The Company has a contractual relationship with the clients and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. Total proceeds from clients are included in the Company's revenue (Note 14).

Revenues from railway transportation—freight forwarding (agency fees). The Company also has a contractual relationship with the clients to act as a legal intermediary for organizing transportation services and pays transport fees on behalf of its clients. These expenses, reimbursed by the clients, are not included in cost of sales. Thus, only agency fees are included in the Company's revenue in respect of this type of activity.

Rental income and interest income. Rental income is recognized on a straight-line basis over the lease term. Interest income is recognised on a time-proportion basis using the effective interest method. When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Short-term employee benefits. Wages, salaries, contributions to the Russian Federation state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company and are included within labour costs in operating expenses. The Company has no legal or constructive obligation to make pension or similar benefit payments beyond the social security contributions.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liability. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset 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 interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Remaining useful life of property, plant and equipment

The estimation of the useful lives of items of property, plant and equipment is a matter of judgement based on experience with similar assets. The future economic benefits embodied in assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in a reduction of the economic benefits embodied in the assets. Management assesses remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Finance leases

Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases.

(c) Related party transactions

In the normal course of business the Company enters into transactions with its related parties (Note 21). IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

(d) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

(e) Net assets attributable to participants

The liability for the redemption right held by the Company's equity participants is classified as 'at fair value through profit or loss' under IAS 39 (revised 2003). It should be measured at fair value, being the present value of the expected redemption amount. It is impractical to determine the exact fair value of this liability as it is unknown when and if participants will withdraw from the Company. The Company's accounting policy for determining this amount, applied as a practical expedient, is disclosed in Note 2.

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2012 or later periods and which the Company has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value

4. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation—special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Company does not expect the new standard to have any effect on its financial statements.

IFRS 11, Joint arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of "types" of joint arrangements to two: joint operations and joint ventures. The existing police choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Company does not expect the new standard to have any effect on its financial statements.

IFRS 12, Disclosure of interest in other entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company does not expect the new standard to have any effect on its financial statements.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company is currently assessing the impact of the standard on its financial statements.

IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company does not expect the amended standard to have any effect on its financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company does not expect the amended standard to have any effect on its financial statements.

Disclosures—Transfers of Financial Assets—Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Company is currently assessing the impact of the amended standard on disclosures in its financial statements.

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards—Government loans (effective for calendar year-end preparers: 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers. The Company does not expect the amended standard to have any effect on its financial statements.

Amendments to IAS 1, Presentation of financial statements, (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 19, Employee benefits, (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company does not expect the amended standard to have any effect on its financial statements.

Disclosures—Offsetting Financial Assets and Financial Liabilities—Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Company is currently assessing the impact of the amended standard on disclosures in its financial statements.

Offsetting Financial Assets and Financial Liabilities—Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company is currently assessing the impact of the amended standard on its financial statements.

Recovery of Underlying Assets—Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an

4. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes—Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Company does not expect the amendments to have any material effect on its financial statements.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these financial statements. The Company does not expect the amendments to have any material effect on its financial statements.

5. FIRST-TIME ADOPTION OF IFRS

These financial statements are the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2011, the comparative information presented in these financial statements for the year ended 31 December 2010 and in the presentation of an opening IFRS balance sheet at 1 January 2010 (the Company's transition date).

In preparing its opening IFRS statement of financial position, the Company has adjusted the amounts reported previously in financial statements prepared in accordance with Russian Accounting Regulations ("RAR"). In preparing these financial statements, the Company has applied a mandatory exception for the estimates. IFRS estimates as at 1 January 2010 are consistent with the estimates as at the same date made in conformity with RAR.

The other compulsory exceptions of IFRS 1 have not been applied as these are not relevant to the Company:

(a) Hedge accounting exception.

(b) Derecognition of financial assets and financial liabilities.

(c) Non-controlling interests.

An explanation of how the transition from RAR to IFRS's has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The following reconciliations

(in thousands of Russian roubles, unless otherwise stated)

5. FIRST-TIME ADOPTION OF IFRS (Continued)

provide a quantification of the effect of the transition from RAR to IFRS at 1 January 2010, 31 December 2011 and for the year ended 31 December 2011:

	31 December 2011	1 January 2010
EQUITY UNDER RAR	**1,399,105**	**3,329,165**
Effects of changes in accounting policies:		
(i) Finance lease	2,842,244	1,786,597
(ii) Capitalisation of elements of cost of non-current assets	372,108	87,276
(iii) Revenue and expenses recognition	(322,057)	(193,479)
(iv) Deferred tax: recognition under the balance sheet liability method	(578,459)	(332,283)
(v) Accounts receivable: provision for impairment	—	(18,978)
IFRS NET ASSETS ATTRIBUTABLE TO PARTICIPANTS	**3,712,941**	**4,658,298**

	2011
NET PROFIT UNDER RAR	**2,062,394**
Effects of changes in accounting policies:	
(i) Finance lease	523,628
(ii) Capitalisation of elements of cost of non-current assets	132,632
(iii) Revenue and expenses recognition	(9,395)
(iv) Deferred tax: recognition under the balance sheet liability method	(129,373)
(vi) Distribution to participants	(5,610,322)
CHANGE IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS UNDER IFRS	**(3,030,436)**

The key adjustments for the differences between RAR and IFRS were attributable to the following:

(i) ***Finance lease:*** The Company entered into a number of arrangements that convey to the Company the right to use assets for an agreed period of time in return for a payment or the series of payments. Under RAR the right to use assets was classified and accounted for as operating leases. On transition to IFRS assessment was made to determine whether the agreements contain leases that should be accounted in accordance with IAS 17. Therefore, the adjustment was required to recognise finance leases as assets and liabilities in the statement of financial position at the inception of the lease and to reverse rent payments which were recognised as expenses in RAR profit or loss.

(ii) ***Capitalisation of elements of cost of non-current assets:*** The cost of replacing major parts is recognised as expenses in RAR profit or loss for the period. The adjustment was required to recognise the cost of replacing parts in the carrying amount of items of property, plant and equipment in accordance with IAS 16.

(iii) ***Revenue and expenses recognition:*** On transition to IFRS the Company adopted accounting policy to recognise revenue from services rendered in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual services provided as a proportion of the total services to be provided. Appropriate portion of expenses is allocated to revenues recognised. Accordingly, revenue and expenses were adjusted to comply with the accounting policy adopted.

(iv) ***Deferred tax: recognition under the balance sheet liability method.*** The adjustment was required to recognise deferred taxes under the balance sheet liability method for temporary differences detailed in Note 12.

(in thousands of Russian roubles, unless otherwise stated)

5. FIRST-TIME ADOPTION OF IFRS (Continued)

(v) ***Accounts receivable: provision for impairment.*** The adjustment was required to recognise impairment of accounts receivable estimated in accordance with IAS 39 methodology that is different from that used by the Company under RAR.

(vi) ***Distribution to participants:*** Under RAR distributions to participants are recorded directly in net assets attributable to participants. Under IFRS distributions to participants in OOO companies are recognised in profit or loss within finance costs.

The Company's first-time adoption did not have a significant impact on the total operating, investing or financing cash flows.

6. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Rolling stock	Motor vehicles	Other	Construction in progress	Total
Cost at 1 January 2010	8,244,466	18,167	8,782	215,901	8,487,316
Accumulated depreciation	(1,004,366)	(6,291)	(4,366)	—	(1,015,023)
Carrying amount at 1 January 2010	**7,240,100**	**11,876**	**4,416**	**215,901**	**7,472,293**
Additions	402,224	1,692	921	46,218	451,055
Disposals	(10,724)	(189)	—	—	(10,913)
Depreciation charge	(509,300)	(2,651)	(1,699)	—	(513,650)
Carrying amount at 31 December 2010	**7,122,300**	**10,728**	**3,638**	**262,119**	**7,398,785**
Cost at 31 December 2010	8,465,709	19,553	9,704	262,119	8,757,085
Accumulated depreciation	(1,343,409)	(8,825)	(6,066)	—	(1,358,300)
Carrying amount at 1 January 2011	**7,122,300**	**10,728**	**3,638**	**262,119**	**7,398,785**
Additions	134,091	1,028	341	2,353	137,813
Disposals	(2,263)	(4,564)	(35)	(101,726)	(108,588)
Reclassification to non-current assets held for sale	—	—	—	(162,746)	(162,746)
Depreciation charge	(512,558)	(2,590)	(1,642)	—	(516,790)
Carrying amount at 31 December 2011	**6,741,570**	**4,602**	**2,302**	**—**	**6,748,474**
Cost at 31 December 2011	8,487,081	12,335	9,523	—	8,508,939
Accumulated depreciation	(1,745,511)	(7,733)	(7,221)	—	(1,760,465)
Carrying amount at 31 December 2011	**6,741,570**	**4,602**	**2,302**	**—**	**6,748,474**

At 31 December 2010 the carrying amount of property, plant and equipment pledged as collateral for borrowings was RUB 709,511 thousand (1 January 2010: RUB 744,108 thousand). By 31 December 2011 the borrowings were settled ahead of schedule.

The Company leases rolling stock under non-cancellable finance lease agreements. The lease terms are between 7 and 9 years.

(in thousands of Russian roubles, unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2011 included in rolling stock are the assets held under finance leases with a carrying value of RUB 4,166,958 thousand (31 December 2010: RUB 4,979,991 thousand; 1 January 2010: RUB 5,074,050 thousand).

At 31 December 2011 items of property, plant and equipment with carrying value of RUB 162,746 thousand were classified as non-current assets held for sale following the management's plan to sell the assets. The Company expects to complete the sale in 2012.

7. LOANS ADVANCED

	Currency	Interest rate	31 December 2011	31 December 2010	1 January 2010
Long-term loans advanced					
Loans advanced to related parties with maturity in July 2013	RUB	8.3%	—	2,700,000	—
Loans advanced to related parties with maturity in November 2013	RUB	8%	—	1,300,000	—
Total loans advanced			**—**	**4,000,000**	**—**

By 31 December 2011 the loans advanced were settled ahead of schedule.

The fair values of loans advanced approximated their carrying amounts.

8. TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010	1 January 2010
Trade receivables	854,969	2,069,000	1,943,527
Less: provision for impairment of trade receivables	(22,604)	(18,978)	(18,978)
Trade receivables—net	832,365	2,050,022	1,924,549
Other financial receivables	511,854	243,555	418,319
Total financial assets within trade and other receivables	**1,344,219**	**2,293,577**	**2,342,868**
Advances to suppliers	693,218	387,830	293,584
VAT recoverable	453,369	140,103	84,125
VAT receivable	41,113	25,340	—
Other receivables	3,005	18,182	12,501
Total trade and other receivables	**2,534,924**	**2,865,032**	**2,733,078**

The carrying amounts of trade and other receivables approximated their fair values.

At 31 December 2011, trade and other receivables of RUB 801,242 thousand (31 December 2010: RUB 1,482,002 thousand; 1 January 2010: RUB 1,056,465 thousand) were past due but not impaired. These receivables relate to a number of related parties and other debtors for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	31 December 2011	31 December 2010	1 January 2010
Up to 3 months	283,871	1,308,574	989,431
3 to 12 months	517,371	173,428	67,034
Total	**801,242**	**1,482,002**	**1,056,465**

(in thousands of Russian roubles, unless otherwise stated)

8. TRADE AND OTHER RECEIVABLES (Continued)

At 31 December 2011, trade receivables of RUB 22,604 thousand (31 December 2010 and 1 January 2010: RUB 18,978 thousand) were individually impaired and fully provided for. The individually impaired receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

Movements in the Company's provision for impairment of trade receivables are as follows:

	2011 Trade receivables	2010 Trade receivables
At 1 January	**18,978**	**18,978**
Provision for impairment during the year	3,626	—
At 31 December	**22,604**	**18,978**

The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Receivables that are neither past due nor impaired are considered to be of high credit quality. The Company does not hold any collateral as security.

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

	31 December 2011	31 December 2010	1 January 2010
RUB	2,508,244	2,861,123	2,733,078
USD	26,668	3,905	—
EUR	12	4	—
Total	**2,534,924**	**2,865,032**	**2,733,078**

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	31 December 2011	31 December 2010	1 January 2010
Cash on hand	—	5	2
RUB-denominated balances with banks	327,230	79,798	142,317
USD-denominated balances with bank	—	—	49,343
RUB-denominated bank deposit	801,100	—	—
Total	**1,128,330**	**79,803**	**191,662**

RUB-denominated bank deposit bears an annual interest rate of 6%. Other bank balances of the Company are interest free.

10. BORROWINGS

	Currency	31 December 2011	31 December 2010	1 January 2010
Long-term borrowings	RUB	—	2,661,074	483,221
Short-term borrowings	RUB	—	322,147	322,147
Total borrowings		**—**	**2,983,221**	**805,368**

Bank borrowings bear fixed interest rate ranging as 7.9%-7.95%.

(in thousands of Russian roubles, unless otherwise stated)

10. BORROWINGS (Continued)

Long-term borrowings are repayable as follows:

	31 December 2011	31 December 2010	1 January 2010
1 to 2 years	—	161,074	322,147
2 to 3 years	—	2,500,000	161,074
Total	**—**	**2,661,074**	**483,221**

At 31 December 2010 long-term borrowings of RUB 161,074 thousand and short-term borrowings of RUB 322,147 thousand (1 January 2010: long-term borrowings of RUB 483,221 thousand and short-term borrowings of RUB 322,147 thousand) were secured by property, plant and equipment (Note 6).

At 31 December 2010 related parties of the Company guaranteed the Company's long-term borrowings of RUB 2,661,074 thousand and short-term borrowings of RUB 322,147 thousand (1 January 2010: long-term borrowings of RUB 483,221 thousand and short-term borrowings of RUB 322,147 thousand). By 31 December 2011 the borrowings were settled ahead of schedule and the guarantee ceased.

The fair value of borrowings approximates their carrying amounts.

11. FINANCE LEASE LIABILITY

The finance lease liability is effectively collateralised by the leased assets, as the assets revert to the lessors in the event of default.

Finance lease liability minimum lease payments:

	31 December 2011	31 December 2010	1 January 2010
Not later than 1 year	1,107,463	1,331,753	1,706,005
Later than 1 year and not later than 5 years	1,944,141	2,899,356	3,838,153
More than 5 years	190	51,040	186,527
Future finance charges on finance lease	(586,779)	(1,006,228)	(1,450,327)
Present value of finance lease liability	**2,465,015**	**3,275,921**	**4,280,358**

The present value of finance lease liability matures as follows:

	31 December 2011	31 December 2010	1 January 2010
Not later than 1 year	816,333	912,306	1,167,865
Later than 1 year and not later than 5 years	1,648,494	2,315,630	2,933,964
More than 5 years	188	47,985	178,529
Present value of finance lease liability	**2,465,015**	**3,275,921**	**4,280,358**

The Company's finance lease liability is denominated in Russian roubles.

(in thousands of Russian roubles, unless otherwise stated)

12. INCOME TAXES

Income tax charge comprises the following:

	2011	2010
Current income tax charge	522,582	415,629
Deferred tax expense	129,708	116,992
Income tax charge	**652,290**	**532,621**

The income tax rate applicable to the Company's 2011 and 2010 income is 20%.

A reconciliation between the expected and the actual taxation charge is provided below.

	2011	2010
(Loss)/profit before income tax	**(2,378,146)**	**2,617,700**
Theoretical tax (credit)/charge at statutory rate of 20%	(475,629)	523,540
Distributions to participants (Note 19)	1,122,064	—
Tax effect of non-deductible expenses	5,855	9,081
Income tax charge	**652,290**	**532,621**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20%.

	1 January 2011	Credited/ (charged) to profit or loss	31 December 2011
Tax effect of deductible temporary differences:			
Finance lease liability	655,184	(186,944)	468,240
Trade and other receivables	70,173	69,619	139,792
Trade and other payables	4,769	(4,769)	—
Other	348	(348)	—
Tax effect of taxable temporary differences:			
Property, plant and equipment	(1,179,365)	68,254	(1,111,111)
Trade and other payables	—	(75,380)	(75,380)
Other	—	(140)	(140)
Total net deferred tax liability	**(448,891)**	**(129,708)**	**(578,599)**

(in thousands of Russian roubles, unless otherwise stated)

12. INCOME TAXES (Continued)

	1 January 2010	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible temporary differences:			
Finance lease liability	810,478	(155,294)	655,184
Trade and other receivables	42,491	27,682	70,173
Trade and other payables	—	4,769	4,769
Other	813	(465)	348
Tax effect of taxable temporary differences:			
Property, plant and equipment	(1,185,681)	6,316	(1,179,365)
Total net deferred tax liability	**(331,899)**	**(116,992)**	**(448,891)**

At 31 December 2011, the current portion of the deferred tax liability amounted to RUB 115,356 thousand (31 December 2010: RUB 29,137 thousand; 1 January 2010: RUB 30,180 thousand), the current portion of the deferred tax asset amounted to RUB 303,058 thousand (31 December 2010: RUB 262,039 thousand; 1 January 2010: RUB 198,214 thousand).

13. ACCOUNTS PAYABLE

	31 December 2011	31 December 2010	1 January 2010
Trade payables	102,251	280,926	166,485
Other financial payables	188,025	3,240	939
Total financial liabilities within trade and other payables	**290,276**	**284,166**	**167,424**
Advances from customers	1,467,871	103,489	52,769
Advances from customers under agency agreements	1,875,081	544,119	172,677
Other payables	5,504	3,655	6,292
Total accounts payable	**3,638,732**	**935,429**	**399,162**

The carrying amounts of the Company's trade and other payables are denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
RUB	3,616,282	922,111	399,162
USD	21,804	9,278	—
EUR	646	4,040	—
Total	**3,638,732**	**935,429**	**399,162**

The carrying amounts of trade and other payables approximated their fair values.

14. REVENUE

	2011	2010
Transportation services	17,047,726	19,677,154
Other revenue	115,786	92,282
Total	**17,163,512**	**19,769,436**

(in thousands of Russian roubles, unless otherwise stated)

15. COST OF SALES

	2011	2010
Railway tariff	8,363,052	11,998,590
Transportation operator services	2,816,601	3,295,619
Rolling stock operating lease rentals	780,112	35,619
Depreciation	512,955	508,751
Repairs and maintenance	371,172	369,464
Labour costs	107,515	72,260
Property and other taxes	26,567	28,088
Other	25,222	22,601
Total	**13,003,196**	**16,330,992**

16. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Management fees	126,000	98,500
Office operating lease rental	70,706	30,067
Labour costs	65,179	39,625
Bank charges	18,410	3,243
Materials and fuel	5,415	3,579
Provision for impairment of accounts receivable	3,626	—
Depreciation	2,629	4,899
Business trips	2,505	2,064
Other	32,594	17,536
Total	**327,064**	**199,513**

17. OTHER OPERATING (EXPENSES)/INCOME—NET

	2011	2010
Penalties	(242,091)	—
Social costs	(194)	(2,953)
Gain/(loss) on disposal of property, plant and equipment	4,751	(3,193)
Foreign exchange gain/(loss) on operating activities, net	15,559	(8,772)
Other (expenses)/income	(16,447)	9,698
Total	**(238,422)**	**(5,220)**

18. FINANCE INCOME

	2011	2010
Interest on loans issued to related parties (Note 21(i))	213,203	169,949
Other	7,941	1,054
Total	**221,144**	**171,003**

(in thousands of Russian roubles, unless otherwise stated)

19. FINANCE COSTS

	2011	2010
Interest expense on finance lease liability	419,449	563,266
Interest expense on borrowings	164,349	223,748
Distribution to participants (Note 20)	5,610,322	—
Total	**6,194,120**	**787,014**

20. NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

Cash contribution from participants of the Company consists of registered, issued and fully paid participant's units for the total par value of RUB 10,000 thousand.

The Company is organized as a limited liability company. For such companies, voting rights of participants are determined by their percentage participation in the registered charter capital. Each participant has a right to request that the Company redeems its interest. In accordance with the Company's Charter a participant's share upon withdrawing its interest shall be assessed as a share of the Company's net assets calculated based on the statutory accounting reports for the reporting period preceding the date when a participant withdraws its interest.

The Company's net assets attributable to participants determined in accordance with the RAR are RUB 1,399,105 thousand at 31 December 2011 (31 December 2010: RUB 4,947,033 thousand; 1 January 2010: RUB 3,329,165 thousand). During 2011 the Company made a distribution to participants in the amount of RUB 5,610,322 thousand.

In accordance with Russian legislation, the Company distributes profits on the basis of financial statements prepared in accordance with RAR. The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2011, the Company's net statutory profit as reported in the published annual statutory reporting forms was RUB 2,062,394 thousand (2010: net statutory profit of RUB 1,617,868 thousand) and the closing balance of the accumulated surplus, including the current year net statutory profit, totalled RUB 1,387,605 thousand (31 December 2010: RUB 4,935,533 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial or 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. Other related parties include entities that are significantly influenced by the Parent of the Company. The Parent of the Company is disclosed in Note 1.

(in thousands of Russian roubles, unless otherwise stated)

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

The nature of the relationships with related parties with whom the Company entered into significant transactions or had significant outstanding balances are detailed below:

(i) Balances and transactions with the subsidiaries of the Parent

Year-end balances:	31 December 2011	31 December 2010	1 January 2010
Trade receivables	663,034	1,812,924	1,714,180
Advances to suppliers	9,452	10,313	61,993
Other receivables	384,616	198,553	408,022
Trade payables	(1,462)	(2,213)	(537)
Advances from customers	(1,439,003)	(84,368)	(21,627)
Finance lease liability	(2,465,015)	(3,275,921)	(4,280,358)
Advances from customers under agency agreements	(1,875,081)	(542,643)	(172,673)

Transactions carried out during the year:	2011	2010
Revenue	14,895,046	17,566,367
Management fees	126,000	98,500
Sale of property, plant and equipment	120,637	—
Purchases of property, plant and equipment	—	24,521
Office operating lease rental	11,389	14,744
Interest expense on finance lease liability	419,449	563,266

Loans advanced:	2011	2010
Beginning of the year	**2,705,617**	**—**
Loans advanced during the year	—	4,400,000
Repayments of loans advanced	(2,700,000)	(1,700,000)
Interest income accrued	171,603	155,699
Interest received	(177,220)	(150,082)
End of the year	**—**	**2,705,617**

(ii) Balances and transactions with other related parties

Year-end balances:	31 December 2011	31 December 2010	1 January 2010
Trade receivables	157,483	125,280	67,098
Other receivables	—	3,423	—
Trade payables	(584)	(6,403)	(1,558)

Transactions carried out during the year:	2011	2010
Revenue	102,632	83,775

(in thousands of Russian roubles, unless otherwise stated)

21. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(iii) Balances and transactions with the Parent

Loans advanced:	2011	2010
Beginning of the year	**1,314,247**	**—**
Loans advanced during the year	—	1,300,000
Repayments of loans advanced	(1,300,000)	—
Interest income accrued	41,600	14,250
Interest received	(55,847)	(3)
End of the year	**—**	**1,314,247**

Transactions carried out during the year:	2011	2010
Distributions to participants	5,610,322	—

(iv) Key management personnel compensation

The Company is managed by OOO Management company METALLOINVEST, a wholly owned subsidiary of the Parent, which provides management services to a number of Parent's subsidiaries. Compensation of key management personnel consists of remuneration paid to members of the Board of Directors of OOO Management company METALLOINVEST and to the managing director of the Company, who are the employees of OOO Management company METALLOINVEST. Compensation comprises annual remuneration and performance bonus contingent on operating results.

The above details of key management personnel compensation are recharged to OOO Management company METALLOINVEST as part of management fee. The total amount of recharged expenses, which also include other services provided by OOO Management company METALLOINVEST to the Company, was RUB 126,000 thousand in 2011 (2010: RUB 98,500 thousand).

It is not possible to identify separately the amount of the Company's key management personnel compensation and to make a reasonable apportionment of key management personnel compensation of OOO Management company METALLOINVEST in respect of each of the Parent's subsidiaries.

Key management personnel compensation of the Company is included in the aggregate of key management personnel compensation disclosed in the financial statements of the Parent.

(v) Guarantees received

At 31 December 2010 long-term borrowings of RUB 2,661,074 thousand (1 January 2010: 483,221 thousand) and short-term borrowings of RUB 322,147 thousand (1 January 2010: RUB 322,147 thousand) were guaranteed by other related party. By 31 December 2011, the borrowings were settled ahead of schedule and the guarantee ceased.

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

(i) Contractual commitments

As at 31 December 2011 the Company has contractual capital expenditure commitments in respect of property, plant and equipment of RUB nil thousand (31 December 2010: RUB 362,501 thousand; 1 January 2010: RUB 362,501 thousand).

(ii) Legal risks

From time to time and in the normal course of business, claims against the Company may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in

22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

respect of claims in excess of provisions that have been made in these financial statements. The Company has contingent liabilities in respect of claims from the counterparties arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

(iii) Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Company. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to 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 of 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. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies 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 be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

(iv) Environmental matters

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

(v) Operating environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 22 (iii)).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by

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22. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (Continued)

considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development 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.

Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current business and economic environment.

23. FINANCIAL RISK MANAGEMENT

Financial risk factors

The risk management function within the Company is carried out in respect of financial risks, operational risks and legal risks. Financial risks comprise market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The Company is not exposed to material currency, interest rate and price risks.

(a) Credit risk

The Company takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Company's sales of services on credit and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and loans advanced. The Company has no other significant concentrations of credit risk.

The Company's maximum exposure to credit risk by class of assets reflected in the carrying amounts of financial assets in the statement of financial position is as follows:

	31 December 2011	31 December 2010	1 January 2010
Loans advanced (Note 7)	—	4,000,000	—
Trade and other receivables (Note 8)	1,344,219	2,293,577	2,342,868
Cash and cash equivalents (Note 9)	1,128,330	79,803	191,662
Total maximum exposure to credit risk	**2,472,549**	**6,373,380**	**2,534,530**

Trade and other receivables. The Company assesses the credit quality of customers taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Company provides it with purchase and payment terms. The Company's commercial department reviews an ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Company's significant customers is monitored on an ongoing basis. The majority of the Company's customers are related parties of the Company which have a similar credit risk

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23. FINANCIAL RISK MANAGEMENT (Continued)

profile for the Company. The Company does not manage its customers by class for credit risk management purposes.

The Company is exposed to concentrations of credit risk. At 31 December 2011, the Company had 7 counterparties (31 December 2010: 7 counterparties; 1 January 2010: 10 counterparties) with aggregated receivables balances of over RUB 20,000 thousand. At 31 December 2011 the total aggregate amount of these balances was RUB 1,244,856 thousand (31 December 2010: RUB 2,204,352 thousand; 1 January 2010: RUB 2,285,128 thousand) or 91% (31 December 2010: 95%; 1 January 2010: 97%) of the gross amount of trade and other receivables.

Cash and cash equivalents. Cash and cash equivalents are placed in major Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. No bank balances are past due or impaired.

Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2011		31 December 2010	1 January 2010
	Bank balances	Term deposits	Bank balances	Bank balances
Rating				
Medium credit risk	327,217	801,100	79,787	191,642
Unrated	13	—	16	20
Total	**327,230**	**801,100**	**79,803**	**191,662**

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation. The Company uses cash flow budgets which are prepared for each year and quarter to forecast potential liquidity deficit and identify sources of covering that deficit.

The following is the maturity analysis of financial assets and financial liabilities based on the contractual terms. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance sheet amount is based on discounted cash flows.

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23. FINANCIAL RISK MANAGEMENT (Continued)

Maturity of financial instruments:

	As at 31 December 2011			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities:				
Borrowings	—	—	—	—
Trade and other payables	209,594	—	—	—
Finance lease liability	1,107,463	910,050	1,034,091	190
Total	**1,317,057**	**910,050**	**1,034,091**	**190**

	As at 31 December 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities:				
Borrowings	548,460	2,976,390	—	—
Trade and other payables	284,166	—	—	—
Finance lease liability	1,331,753	1,006,065	1,893,291	51,040
Total	**2,164,379**	**3,982,455**	**1,893,291**	**51,040**

	As at 1 January 2010			
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities:				
Borrowings	386,174	527,827	—	—
Trade and other payables	167,424	—	—	—
Finance lease liability	1,706,005	1,339,768	2,498,385	186,527
Total	**2,259,603**	**1,867,594**	**2,498,385**	**186,527**

Capital management

The Company's objective when managing capital is to ensure the Company's ability to continue as a going-concern in order to provide returns and other benefits to its participants. The Company's capital is calculated as "net assets attributable to participants" as shown in the statement of financial position. During 2011 and 2010, the Company successfully met its objectives for managing capital.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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

23. FINANCIAL RISK MANAGEMENT (Continued)

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 new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

24. EVENTS AFTER THE REPORTING PERIOD

Contributions from participants

In February 2012 a new participant, a related party, made a cash contribution to the Company in the amount of RUB 1,778,000 thousand.

Preschedule execution of contract terms of the lease agreements

In March 2012 the Company paid RUB 2,117,478 thousand to the lessor and settled finance lease liabilities in its entirety ahead of schedule.

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