Globaltrans Investment PLC

Russia's Leading Private Freight Rail Operator

Annual Report and Accounts 2008

Globaltrans

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Russia's Leading Private Freight Rail Operator

- Russia's largest privately owned freight rail operator[1] by size of Owned Rolling Stock Fleet; second only to state-owned OAO Russian Railways and its affiliates.
- Listed on the London Stock Exchange's Main Market since May 2008; the first freight rail company with operations focusing on Russia to go public on an international market.
- Business model based on operating of railcars (around 78% of Rolling Stock Fleet[2]) complemented by railcar leasing (around 22% of Rolling Stock Fleet[2]).
- One of the most modern and flexible Rolling Stock Fleets[2] in Russia with 57% consisting of universal gondola (open top) cars and 38% of rail tank cars.
- A predominantly blue-chip client base built over several years, based on trust, exceptional service and understanding of client needs.
- Professional, experienced management team with a proven track record.

1. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.
2. As of the end of 2008.

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Globaltrans Investment PLC

Presentation of Information

FINANCIAL INFORMATION

Globaltrans Investment PLC ("Globaltrans" or the "Group") reports its financial results in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS"). For EU IFRS consolidated financial statements see Appendix 1 "Directors Report and Consolidated Financial Statements" of the Annual Report.

In December 2008 Globaltrans acquired from its parent entity (Transportation Investments Holding Limited) controlling stakes in AS Spacecom ("Spacecom") and AS Intopex Trans ("Intopex"). In accordance with the Group's accounting policies, the acquisition of both companies has been accounted for as a common control transaction using the predecessor basis of accounting. Under this method financial statements of the acquirees are included in the consolidated financial statements on the assumption that the Group (in such a composition) was in existence for all periods presented, consequently necessary changes have been made to the consolidated financial statements for the year ended 31 December 2007.

In this Annual Report all financial information is presented as reported under EU IFRS. In certain cases it is presented net of impact of the acquisition and consolidation of Spacecom and Intopex and highlighted as "net of acquisitions".

In addition, management has elected to present certain non-IFRS financial information (Net Revenue from Operation of Rolling Stock, Adjusted EBITDA, Adjusted Cost of Sales, Empty Run Cost and ROCE) that provide shareholders, investors, securities analysts and other interested parties with supplemental meaningful information for evaluation of the Group's financial performance. All non-IFRS financial information is calculated on the basis of EU IFRS financial statements and/or management accounts and includes impact of the acquisition and consolidation of Spacecom and Intopex except of Net Revenue from Operation of Rolling Stock and Empty Run Costs which is presented "net of acquisitions" (as Spacecom discontinued its operators services in the middle of 2008).

Definitions of non-IFRS financial information are marked with capital letters and defined in "Definitions" on page 46 of the Annual Report.

All financial information which is derived from the management accounts is marked in the Annual Report with asterisk {*}.

OPERATIONAL INFORMATION

Globaltrans reports certain operational information (average distance of loaded trip, Average Number of Loaded Trips per Railcar, Average Price per Trip, Average Rolling Stock Operated, Empty Run Ratio, Freight Rail Turnover, transportation volume, share of empty kilometres paid by the Group) which is presented to illustrate the changes in the Group's operational and financial performance during the reporting periods on a net of acquisitions basis; and derived from the management accounts. Only information related to the Group's rolling stock fleet as of 31 December 2008 (i.e. rolling stock owned and leased-in under finance leases, rolling stock leased-in under operating leases, rolling stock leased-out under operating leases) reflects the acquisition and consolidation of Spacecom and Intopex.

Definitions of operational information are marked with capital letters and defined in "Definitions" on page 46 of the Annual Report.

All financial and operational information presented in the Annual Report should be used only as an analytical tool, and investors should not consider any of them in isolation or any combination of them together as a substitute for analysis of the Group's consolidated financial statements reported under EU IFRS and included in Appendix 1 "Directors Report and Consolidated Financial Statements" of the Annual Report.

CAUTIONARY NOTE

This Annual Report including its appendices may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward looking statements by terms such as "expect", "believe", "estimate", "anticipate", "intend", "will", "could", "may", or "might", the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Group operates.

By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions you that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Group operates may differ materially from those described in or suggested by the forward-looking statements contained in these materials.

In addition, even if the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Group operates are consistent with the forward-looking statements contained in these materials, those results or developments may not be indicative of results or developments in future periods. The Group does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in forward-looking statements of the Group, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market, as well as many other risks specifically related to the Group and its operations.

The Management Report in this Annual Report has been prepared to assist shareholders to assess the Group's strategies and the potential for those strategies to succeed and for no other purpose. The Group, its directors, employees, agents and advisers do not accept or assume responsibility for any other purpose or to any other person to whom this Annual Report is shown or into whose access it may come and any such responsibility or liability is expressly disclaimed.

2008 at a Glance

CORPORATE HIGHLIGHTS

Leading position as the largest private freight rail operator[3] in Russia by size of Owned Rolling Stock Fleet.

Geographical expansion along with the creation of a subsidiary in Ukraine and the acquisition of two railcar leasing companies, providing entry to the oil and oil products freight rail transportation sector in Kazakhstan.

Successful Initial Public Offering ("IPO") of GDRs on the Main Market of the London Stock Exchange ("LSE").

Increased transparency as a listed company, Globaltrans has adopted and implemented the Group's Code of Corporate Governance which amongst other things include appointment of Independent Non-Executive Directors.

3. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.

A Year of Achievements

PERFORMANCE HIGHLIGHTS

Net Revenue from Operation of Rolling Stock increased by 23% to USD 433.9* million in 2008 compared to the previous year.

Adjusted EBITDA increased by 41% to USD 250.3* million in 2008 compared to the previous year.

Freight Rail Turnover for the year 2008 showed a slight growth, increasing by 1% year on year to 61.7 billion tonnes-km.

Significant deleveraging in 2008 with Net Debt to Adjusted EBITDA ratio reduced from 2.9x* to 1.3x* within 2008.

Excellent operating efficiency in the first six months of 2008, with Empty Run Ratio for gondola (open top) cars improving to 19%. However, the changes in the economic environment later in the year led the **Empty Run Ratio for for gondola (open top) cars for the whole of 2008 to increase to 32%.**

Strong increase in Rolling Stock Fleet by 26% during 2008, reaching 26,967 railcars at the end of 2008.

SELECTED FINANCIAL RESULTS FOR YEARS ENDED 31 DECEMBER 2008 AND 2007

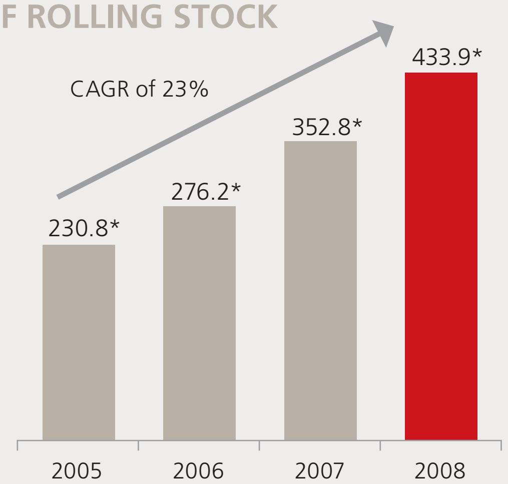
IFRS financial information	2008 USD million	2007 USD million	change USD million	change %
Revenue	**660.9**	**605.0**	**55.8**	**9%**
Incl. Railway transportation - operators services	578.9	544.9	34.0	6%
Incl. Operating lease of rolling stock	66.7	51.7	15.0	29%
Total costs of sales, selling and marketing costs and administrative expenses	456.3	466.3	(10.0)	-2%
Other gains-net	3.2	6.3	(3.1)	-49%
Operating profit	**207.8**	**145.0**	**62.7**	**43%**
Profit for the year	**97.4**	**92.7**	**4.6**	**5%**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	0.82	0.86	(0.04)	-5%
Total assets	996.1	957.7	38.3	4%
Total debt	445.6	546.6	(100.9)	-18%
Cash and cash equivalents	111.6	33.3	78.3	235%

Additional non-IFRS financial information	2008 USD million	2007 USD million	change USD million	change %
Net Revenue from Operation of Rolling Stock	433.9*	352.8*	81.1	23%
Adjusted Cost of Sales	189.7*	184.0*	5.7	3%
Adjusted EBITDA	250.3*	177.4*	72.9	41%
Net Debt	334.0*	513.2*	(179.2)	-35%
Net Debt to Adjusted EBITDA ratio	1.3*	2.9*	–	–
ROCE	24%*	19%*	–	–

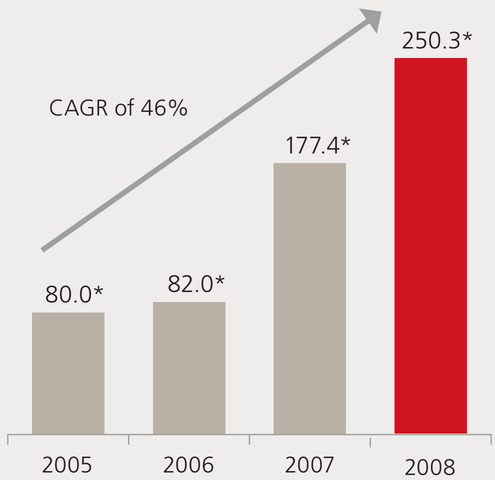
SELECTED OPERATIONAL INFORMATION FOR YEARS ENDED 31 DECEMBER 2008 AND 2007

	2008	2007	change %
Freight Rail Turnover (billion tonnes-km)	61.7	61.0	1%
Transportation volume (million tonnes)	33.3	35.4	-6%
Rolling Stock Fleet (at year end)[4]	26,967	21,329	26%
Average Rolling Stock Operated	20,057	20,303	-1%
Average Number of Loaded Trips per Railcar	26.5	28.2	-6%
Average distance of loaded trip (km)	1,855.4	1,751.5	6%
Average Price per Trip (USD)	816.0	616.8	32%
Empty Run Ratio for gondola (open top) car	32%	21%	–

NET REVENUE FROM OPERATION OF ROLLING STOCK



ADJUSTED EBITDA[5]



4. Rolling Stock Fleet as of the end of 2008 includes impact of the acquisition of Spacecom and Intopex; as of the end of 2007 presented net of acquisitions.
5. Adjusted EBITDA for the years of 2007 and 2008 includes impact of the acquisition of Spacecom and Intopex.

Chairman's Statement

"IT GIVES ME GREAT PLEASURE TO INTRODUCE THIS ANNUAL REPORT, THE FIRST BY GLOBALTRANS AS A LISTED COMPANY."

We look back on 2008 as a year of two distinct parts. For most of the year we saw continued growth in our markets, reflected in increasing demand for freight rail transportation services.

Later, as the impact of the global financial crisis began to be felt in Russia, we experienced a fall in freight volumes in some sectors, especially from the metallurgical industry. Since then, Globaltrans has demonstrated that it possesses the management skills and financial capacity to respond quickly to this major change in circumstances.

The year 2008 also saw an important event in the history of Globaltrans, with the company listing its global depository receipts ("GDRs") on the Main Market of the London Stock Exchange. The Group successfully raised approximately USD 224.7 million in gross proceeds and expanded its shareholder base to include many high profile international investment funds and institutions.

In 2008 we adopted stringent corporate governance standards, corresponding to the best practices and requirements of the LSE Main Market, and are committed to maintaining the highest standards of openness and transparency.

The IPO proceeds have enhanced our strategic flexibility by increasing the resources available to us. They have supported significant expansion of the Group's Rolling Stock Fleet and reinforced our financial position. The Group's consolidated Net Debt stood at approximately USD 334.0* million at the end of 2008, implying a Net Debt to Adjusted EBITDA ratio of 1.3x*.

As we look forward to 2009 we know that we will face challenges. We nevertheless believe that the fundamentals of our business are strong; we have the financial strength to withstand a period of economic slowdown, the flexibility to be able to respond to changing patterns of demand and an exceptionally strong management team, one of the best in the industry.

Even in a situation of reduced growth rates, Globaltrans' position in Russian transport markets helps to sustain its business. Our ability to provide complex logistics solutions to meet the needs of major Russian corporates, together with the size and flexibility of our rolling stock fleet and increased exposure to the less volatile leasing business means we are well positioned to minimise the effect of an economic downturn on our

Alexander Eliseev
Chairman of the Board of Directors

performance. Our customer-focused orientation and success in building close, long-term relationships with major clients further underpins the sustainability of our business.

The medium and long term prospects for the private freight rail sector in Russia and the Commonwealth of Independent States ("CIS") continue to be attractive. The Russian federal government is committed to making significant investments in transport infrastructure and, in this, drawing on private investment. The reform of the railway industry is progressing, with the share of the private rail fleet already amounting to 39% of the total fleet of railcars in Russia as of the end of 2008.

The regulatory environment remains favourable; regulated tariffs charged by OAO Russian Railways ("Russian Railways"), which act as a benchmark for the private sector, increased by 22%[6] as a time weighted average over 2008 and are expected to increase additionally by 8% as a time weighted average over 2009. Against this background, and utilising our competitive advantages, we were able to increase our Average Price per Trip by 32% (far above the Russian Railways benchmark), which is partly also due to the 6% increase in the average distance of loaded trip in 2008.

The private freight rail sector in Russia remains extremely fragmented. Globaltrans is the largest private freight rail operator[7] in the sector and, following its IPO, well capitalised. When the global economic situation stabilises, Globaltrans will be well positioned to once more attain growth rates ahead of those of its competitors. Rail transport remains the dominant mode of freight transport within Russia (accounting for approximately 85% of total freight turnover if pipelines are excluded) and for Russian international trade. Revival of economic activity will translate into increased volumes of freight, especially from those sectors where Globaltrans is particularly strong, such as transportation of metals, oil and oil products.

I wish to thank all our colleagues and partners for their outstanding efforts and co-operation in 2008. The results we present in this Annual Report are proof of the effectiveness of their work. Together we will meet the challenges of 2009 and see Globaltrans through to a new period of growth.

Alexander Eliseev
Chairman of the Board of Directors

6. A time weighted average growth in regulated freight rail transportation services tariff (for internal, import and export transportation services via sea ports and land border crossings) charged by OAO Russian Railways over 2008 (in certain sectors acts as the benchmark for private operators).
7. By size of Owned Rolling Stock Fleet as of the end of 2008. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.

CEO Statement

"ON BEHALF OF THE GROUP'S MANAGEMENT I AM PLEASED TO DELIVER THE FIRST ANNUAL REPORT OF GLOBALTRANS AS A PUBLIC COMPANY."

One year ago, as we prepared to start our new life as a public company with a listing of GDRs on the LSE, we set out our key aims and objectives, and I am proud to say that, thanks to the efforts of all of our staff, and despite a market environment at the end of the year that no-one could predict even a few months earlier we have delivered successful results for 2008.

Throughout the first part of the year, we took advantage of the favourable economic conditions to achieve strong operational and financial performance and towards the latter part of the year took the necessary steps to position the Group to manage the challenging conditions we expect to face in 2009.

As a result, in 2008 we maintained our leading position as the largest private freight rail operator[8] in Russia, significantly expanding our Rolling Stock Fleet by 26% to 26,967 railcars. We have continued our profit-focused growth in 2008:

(i) increasing Net Revenue from Operation of Rolling Stock by 23% to USD 433.9* million;
(ii) increasing operating profit by 43% to USD 207.8 million; and
(iii) increasing Adjusted EBITDA by 41% to USD 250.3* million compared to the previous year.

Our ability to manage the business effectively has enabled us to achieve a Return on Capital Employed ("ROCE") of 24%* in 2008 compared to 19%* in 2007.

Whilst this performance has not been reflected in our GDR price, which was negatively impacted by the adverse market and economic conditions of the latter months of 2008, we are confident that the strong fundamentals of our business provide us with a competitive advantage, allowing us to dedicate resources to the most resilient sectors and use our assets in the most effective way to weather the current storm in the world economy.

Being a freight rail operator, we provide an essential service transporting goods from producers to the market and must be able to respond to trends in the economy as they develop. When the level of activity in the economy falls as we have experienced in the current environment, we are one of the businesses to be affected, but, similarly, as growth revives, we will quickly benefit from increased demand.

The market conditions in the latter part of the year were very challenging, with a significant slowdown in demand for freight transportation services driven by the cut in production in certain sectors of Russian economy, which resulted in a fall in the Group's Freight Rail Turnover by 11% in the fourth quarter of 2008. The negative trends were experienced in most of the sectors that we serve except for the oil and oil products and coal sectors, where demand remained relatively stable. Despite the challenging environment, we still managed to increase our Freight Rail Turnover from 61 billion tonnes-km in 2007 to 61.7 billion tonnes-km in 2008, which is a clear demonstration of the flexibility of our business model. Having a significant proportion of the Group's Rolling Stock Fleet made up of general purpose gondola (open top) cars enabled us to react rapidly to changes in demand from various sectors and move away from the most distressed industries. In the latest months of 2008 our cargo mix structure was adjusted to reflect the new economic environment.

Managing our assets effectively means, amongst other things reducing the Empty Run Ratio for the gondola (open top) cars to the lowest possible level. In the first half of 2008 we achieved an excellent improvement in route optimization, with a historical low Empty Run Ratio of 19% attained for gondola (open top) cars. However, the new environment of declining freight volumes, changing patterns of logistical route schemes,

8. By size of Owned Rolling Stock Fleet as of the end of 2008. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.

Sergey Maltsev
Chief Executive Officer

slow demand from small and medium sized corporate clients and changes in cargo mix experienced in the last quarter of 2008 had a direct impact on the Empty Run Ratio for gondola (open top) cars which increased to 32% for the whole year. Operating efficiency will remain one of management's key priorities in 2009 and we will do all we can to ensure that the Empty Run Ratio is kept at the minimum possible levels given the challenging economic situation expected to continue in 2009.

As a reaction to the turbulent market conditions at the end of 2008 we made a decision to strengthen the Group's position in the railcar leasing segment. In December 2008 Globaltrans completed the acquisition of majority stakes in Spacecom and Intopex, which render rail tank car leasing services to the markets of Russia and Kazakhstan. This transaction, with its US Dollar denominated cash flows, should favourably complement our existing strong franchise in the railcar operating business and enable us to build a platform to increase our presence in the promising sector of freight rail transportation of oil and oil products in Kazakhstan.

Our capital expenditure programme continued as part of our development strategy and has been recalibrated to bring it in line with our current needs and reflect market realities. As of the end of 2008 we had entered into contracts for the delivery of 2,300 new railcars and 1 locomotive, and through the acquisition of Spacecom and Intopex immediately gained an additional 4,152 modern rail tank cars and 8 locomotives. Thus we successfully met our rolling stock fleet expansion plan for 2008 and 2009. Thereafter we put new purchases on hold and are not currently planning any significant expansion capital expenditure for the coming year unless any interesting opportunities arise.

As a result of strong cash flows generated in 2008 and funds raised from our IPO, Globaltrans is in a strong financial position with Group consolidated Net Debt standing at USD 334.0* million at the end of 2008 (2007: USD 513.2* million) and moderate gearing, with a Net Debt to Adjusted EBITDA ratio of 1.3x* (2007: 2.9x*). We remain confident in our financial position for the coming year, with USD 124.3 million of short term debt[9] falling due in 2009, backed by USD 111.6 million available in cash and cash equivalents at the end of 2008, our substantial cash generation power and capacity to partly refinance existing debt if required.

Looking forward to 2009, as with many other businesses across the world, we face very uncertain and turbulent times. The speed with which the world economy can return to its previous growth path remains to be seen; but we must strive at all times to offer the best services to retain customer loyalty and be committed to making constant improvements in operational and cost management. I believe that, with the actions we have taken to diversify our business, together with our strong industry expertise and capabilities, we are well placed to meet the challenges that lie ahead.

Our commitment to all our shareholders is to protect the fundamental value of Globaltrans' business through a period of slowing economic performance. We will continue to seek additional growth opportunities in the market and to equip Globaltrans in order that, when conditions revive, we are ready to realise our full potential.

I would like to thank our customers, investors and shareholders for their continued confidence and support to our Company as we build a leading position in the Russian freight rail transportation industry.

Sergey Maltsev
Chief Executive Officer

9. Including accrued interest of USD 6.5* million as of the end of 2008.

Management Report

DIRECTORS' RESPONSIBILITY

Each of the Directors confirms that to the best of his or her knowledge the Management Report includes a fair review of the development and performance of Globaltrans Investment PLC and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Sergey Maltsev
Chief Executive Officer

Mikhail Loganov
Director

Rail is the Key Mode of Freight Transportation in Russia

The railway system remains the key mode of transportation in Russia with a total length of railroad track reaching approximately 85,000 kilometres[10], making it the second largest network in the world after the United States. Russia is the third largest country after China and the United States in terms of freight rail turnover.

RUSSIAN RAILWAY TRANSPORTATION MARKET

Top 5 countries in the world in terms of track length (2006, km)

USA	226,000
Russia	**85,000**
China	77,000
India	63,000
Canada	48,000

Source: Business Monitor International, Directorate General (DG) Energy and Transport, Federal State Statistics Service of the Russian Federation.

Top 5 countries in the world in terms of freight rail turnover (2006, billion tonnes-km)

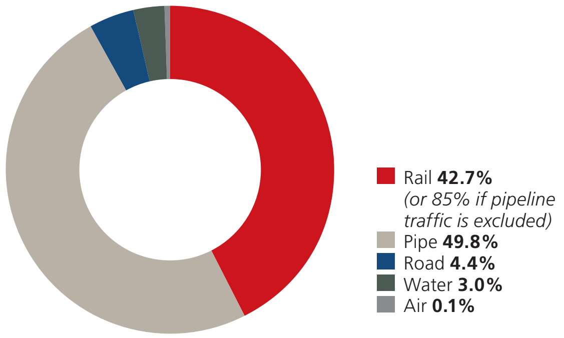
USA	2,639.8
China	2,195.4
Russia	**1,950.8**
India	439.6
Canada	355.8

Source: Business Monitor International, Directorate General (DG) Energy and Transport, Federal State Statistics Service of the Russian Federation.

Rail dominates the freight transportation market in Russia, comprising approximately 42.7% of the overall country's freight turnover in 2008, and 85% if pipeline traffic is excluded, according to the Federal State Statistics Service of the Russian Federation.

High share of rail in freight transportation in Russia is due to the geography of the Russian Federation. Being the largest country in the world, there are large distances between the population and production centres. In addition, there are limitations of other forms of transportation. The road system is insufficient in terms of coverage and capacity whilst waterways freeze in winter.

Freight transportation structure in Russia (2008, tonnes-km)



Source: Federal State Statistics Service of the Russian Federation.

Assisted by positive economic trends and gross domestic product ("GDP") growth, Russian freight rail turnover has been growing at a Compound Annual Growth Rate ("CAGR") of 6% over the last eight years according to the Federal State Statistics Service of the Russian Federation.

In 2008 more than 1.3 billion tonnes of freight was transported by rail in Russia, and freight rail turnover reached 2,113 billion tonnes-km. Nevertheless, in absolute figures it is still below its peak of 2,523 billion tonnes-km recorded in 1990.

Freight rail turnover development in Russia (billion tonnes-km)

1990	2,523
1995	1,214
2000	1,373
2001	1,434
2002	1,510
2003	1,669
2004	1,802
2005	1,858
2006	1,951
2007	2,090
2008	**2,113**

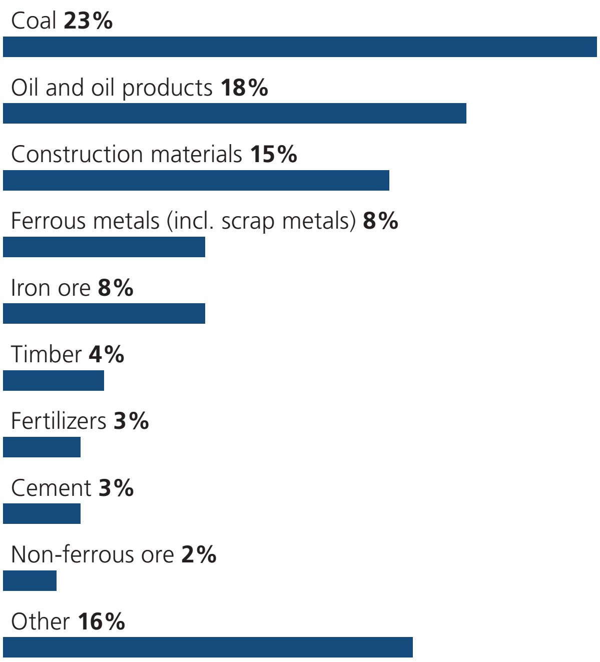
Source: Federal State Statistics Service of the Russian Federation.

10. Source: Federal State Statistics Service of the Russian Federation as of 2006.

FREIGHT RAIL TRANSPORTATION MARKET STRUCTURE

Major categories of cargoes transported by rail in Russia are coal, oil and oil products, ferrous metals (including scrap metals), iron ore and construction materials. In 2008 approximately 23% of all freight transported in Russia was represented by coal; 18% by oil and oil products; 15% by construction materials; 8% by iron ore, 8% by ferrous and scrap metals, and 4% by timber, with the rest split between various types of other freight.

Freight rail transportation structure in Russia (2008, by type of cargo, tonnes)

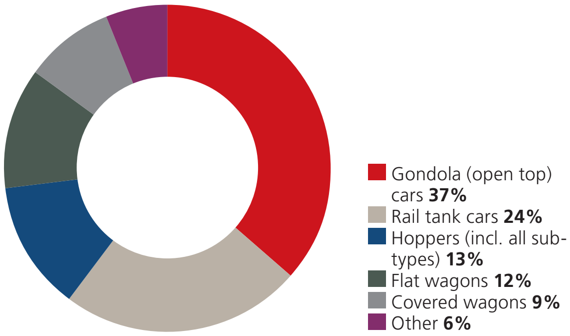


Source: Federal State Statistics Service of the Russian Federation.

RAILCAR FLEET STRUCTURE IN RUSSIA

In recent years, the overall railcar fleet in Russia has been expanding by about 3-4% annually, exceeding 1 million railcars at the end of 2008. The major portion of the total railcar fleet is represented by universal gondola (open top) cars and rail tank cars, accounting for 37% and 24% of the total railcar fleet respectively in 2008.

Railcar fleet structure in Russia (2008, by type of railcar)



Source: Russian Railways, Industry media.

REFORM OF RUSSIAN RAILWAY TRANSPORTATION INDUSTRY

Since 2001 the Russian rail industry has been undergoing reforms aimed at improving the quality of railway services, increasing the efficiency of the infrastructure and satisfying the growing demand of the Russian economy for transportation services.

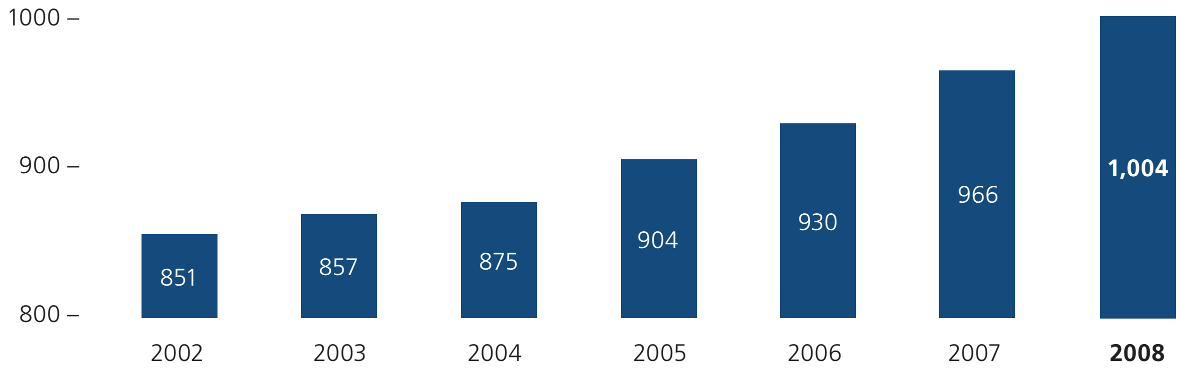
Implementation of the reform of the Russian railway transportation market was divided into three stages, the first of which involved separation of the regulatory and business functions. This was put into practice with establishment of the Open Joint-Stock Company Russian Railways in 2003. While Russian Railways retained a monopoly in the provision of rail infrastructure and locomotive services, the new regulatory framework provided private operators with a legal right to access railway infrastructure on a non-discriminatory basis alongside Russian Railways and its subsidiaries.

The second stage of the reform includes establishment of Russian Railways' operating subsidiaries focused on competitive activities. The aim of this stage is to create conditions for free market pricing in the railway industry. The goals of the second stage are partly fulfilled with some activities still continuing.

The final stage provides for further development of competition in passenger and freight transportation with certain Russian Railways subsidiaries to be divested and minority stakes offered to investors in order to attract new capital and private sector expertise. The intention is that the completion of the reform will see Russian Railways operating solely as an infrastructure provider while transportation and locomotive traction services will be offered by privately owned companies. The third stage was initially scheduled to be completed by 2010, although the current economic environment may slow the progress of its implementation.

The competitive landscape in the Russian freight rail transportation market has changed significantly since

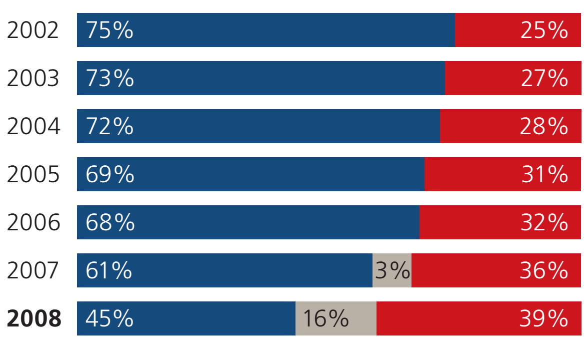
Railcar fleet development in Russia (thousand railcars)



Source: Russian Railways, Freight One, Globaltrans, A.T.Kearney, Industry media.

commencement of rail sector reform in 2001. The boom in the freight rail transportation market began in 2003 with the next few years seeing growth in the number of private operators and their respective fleets of railcars.

Private railcar fleet development in Russia



Russian Railways (incl. subsidaries other than Freight One)
Freight One (subsidiary of Russian Railways)
Private Operators

Source: Russian Railways, Freight One, Globaltrans, A.T.Kearney, Industry media.

As private operators have been expanding their fleets, Russian Railways' share of the total Russian railcar fleet has been decreasing. Thus, while in 2002 Russian Railways owned about 75% of all railcars in Russia, in 2007 its share decreased to 61% and in 2008 declined yet further to 45%. In 2007 Freight One was founded as a 100% subsidiary of Russian Railways through the transfer of Russian Railways' rolling stock to it; Freight One works under the same legal framework (including free price setting to its customers) as private operators.

Market share of private operators (2008, by transportation volume)

	Coal	Oil and oil products	Iron ore	Scrap metals	Ferrous metals	Con-struction materials	Cement
Private operators	**23%**	**75%**	**52%**	**31%**	**38%**	**28%**	**43%**
Russian Railways and its subsidiaries (incl. Freight One)	77%	25%	48%	69%	62%	72%	57%

Source: Federal State Statistics Service of the Russian Federation, Russian Railways, Freight One, Industry media, Globaltrans estimates.

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

Largest private freight rail operators in Russia (by size of Owned Rolling Stock Fleet[11], thousand railcars)

	2008
Globaltrans (incl. subsidiaries)	**23.6**
DVTG OAO (Far Eastern Transport Group)	13.0
Novotrans Holding (OAO)	13.0
Evrosib SPB-transport systems (ZAO)	11.8
Firma Transgarant (OOO)	9.1
Transoil (OOO)	8.0
Balttransservis (OOO)	7.2
Metalloinvesttrans (OOO)	7.1

Source: Press-releases of respective companies, Industry media.

Despite significant growth in rolling stock fleets owned by private companies in Russia, the number of such companies has decreased in recent years: at its height, there were 2,500 companies owning at least one railcar, but by the end of 2008 the number of private owners had decreased to about 1,600. Further strengthening of market competition will obviously lead to further consolidation and more of the smaller players are likely to leave the market as larger operators continue to expand. The top 10 Russian private freight rail operators control approximately 30% of the whole private fleet.

FREIGHT RAIL TRANSPORTATION SERVICES TARIFF REGULATION

The freight rail transportation services tariff ("tariff") which applies to the services provided by Russian Railways is established by the Federal Tariff Service ("FST") for domestic Russian railway transportation.

The level of tariff charged depends on a number of factors, including weight of cargo, distance travelled, destination (whether the freight is being transported to or from abroad or within Russia, and to or from sea ports) and cargo class[12], where Class 1 cargo (including iron ore and coal) attracts the lowest tariff and Class 3 cargo (including ferrous metals and scrap metals) attracts the highest tariff.

Tariffs that private operators (like Globaltrans) can charge their customers are not regulated, although in certain sectors (depending on the degree of dominance of Russian Railways in such sectors) the tariff serves as a benchmark for private operators (see "Market share of private operators" table on page 15).

When providing a service to their customers, private operators pay a regulated infrastructure and locomotive charge for use of infrastructure and locomotive traction provided by Russian Railways.

Effective from 10 January 2009, the FST order introduced a linear 5% tariff increase for internal, import and export transportation services via sea ports and land border crossings but it is expected that the tariff will see an additional 5.7%[13] increase effective from 1 July 2009.

Overall Russia freight rail transportation tariff development (2003-2009)

	2003	2004	2005	2006	2007	2008	**2009**
Tariff growth in % (end of the year to the end of the previous year)	26.5	12.6	13.3	8.9	7.7	22.1	**11**[14]

Source: Federal State Statistics Service of the Russian Federation, Federal Tariff Services.

11. Owned Rolling Stock Fleet is defined as rolling stock owned and leased-in under finance leases as of the end 2008 (for Evrosib SPB-transport systems (ZAO) the number of railcars includes fleet under operation).
12. For description and examples of each of classes of cargo see "Definitions"on page 46 of the Annual Report.
13. Source: announcement of Federal Tariff Service.
14. Includes the 5.0% increase effective from 10 January 2009 and additional 5.7% increase expected to become effective from 1 July 2009.

History, Ownership and Structure

The history of Globaltrans is an excellent example of post-Soviet entrepreneurial success in building a profitable and fast growing business almost from scratch.

A STORY OF ENTREPRENEURIAL SUCCESS

Globaltrans was established in the wake of the Russian railway transportation market reform in the early 2000s. It began life as two independently managed private companies engaged in the freight rail transportation business – OOO Sevtekhnotrans ("Sevtekhnotrans") and OAO New Forwarding Company ("New Forwarding Company").

In a few years, it has grown to become Russia's largest privately owned freight rail operator[15], second only to Russian Railways and its subsidiaries by size of Owned Rolling Stock Fleet, and the first private freight rail company with operations focusing on Russia to be listed.

THE FORMATIVE YEARS: 2000-2003

Sevtekhnotrans was established in 2000 as a Russian limited liability company by entities controlled by the current beneficial owners of Transportation Investments Holding Limited ("TIHL") and their associates (see "Ownership structure" for beneficial owners of TIHL on page 18). Until 2004, Sevtekhnotrans was mainly engaged in freight forwarding and rolling stock leasing services and accumulated rolling stock.

Following the deregulation of the Russian freight rail market in 2003, New Forwarding Company was established as a Russian Open Joint Stock Company by entities controlled by Envesta Investment Limited ("EIL"), the Company's other current major shareholder (See "Ownership structure" for beneficial owners of EIL on page 18). In the same year, it received a freight rail carrier licence and began its transportation services operations.

ESTABLISHMENT OF GLOBALTRANS: 2004-2007

In May 2004 Globaltrans Investment Limited was established by EIL and a company controlled by the beneficial owners of TIHL. It was incorporated as a private limited liability company and registered in Cyprus. In July 2004, the original founding entities of New Forwarding Company transferred their respective shares in New Forwarding Company to Globaltrans Investment Limited. In June 2007 shares of Sevtekhnotrans were transferred to Globaltrans Investment Ltd.

LIFE AS A PUBLIC COMPANY: 2008

In March 2008 following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment PLC and the Company was converted into a public limited liability company. The change of name was approved by the Registrar of Companies in April 2008.

In May 2008 Global Depositary Receipts representing ordinary shares of Globaltrans Investment PLC were successfully listed on the Main Market of the London Stock Exchange with a free-float of approximately 30%. The offering consisted of both primary and secondary components and comprised an offering of GDRs by Globaltrans and the current shareholders 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 224.7 million in gross proceeds for Globaltrans.

LOOKING FORWARD – EXPANDING THE FOOTPRINT

In July 2008 the Board of Directors of Globaltrans approved the creation of a Ukrainian subsidiary of Globaltrans with the Group holding 100% of its share capital. The subsidiary was established to provide competitive, customer focused transportation services, primarily to large companies operating in the steel, iron ore and coking coal sectors. The Ukrainian subsidiary was registered in September 2008. The Group was not engaged in any significant business operations in Ukraine in 2008.

In December 2008 Globaltrans acquired stakes in Spacecom and Intopex, two Estonian registered rail tank car leasing companies. These companies favourably complement the Group's portfolio of businesses, providing increased exposure to the oil and oil products transportation sector and entry into Kazakhstan's freight rail market. In addition these companies lease-out their entire fleet of railcars, thus enhancing the Group's revenues from leasing operations.

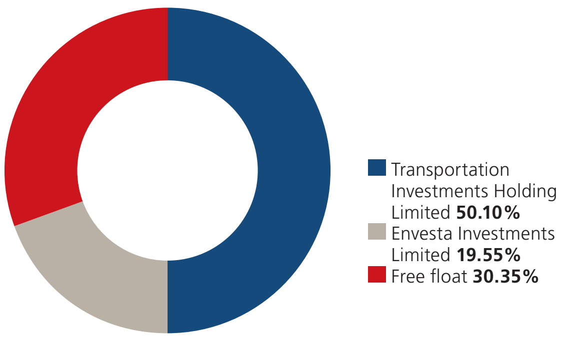
OWNERSHIP STRUCTURE

The share capital of Globaltrans as of 31 December 2008 consisted of 116,959,064 ordinary shares, with a nominal value of USD 0.10 each. The free float of Globaltrans as of the end of 2008 amounted to 30.35% of the outstanding share capital.

15. By size of Owned Rolling Stock Fleet as of the end of 2008. Based on publicly available information.
For details see "the table "Largest private freight rail operators in Russia" on page 16.

The Group's GDRs are listed on the Main Market of the London Stock Exchange under the ticker GLTR. Each GDR represents one ordinary share.

Ownership structure of Globaltrans
(as of 31 December 2008)



Transportation Investments Holding Limited ("TIHL") is the largest privately-owned transportation and infrastructure investment group in Russia, with strategic interests in rail transportation and port operations. It carries out its business under the brand NTrans.

Nikita Mishin, Konstantin Nikolaev and Andrey Filatov jointly control all of the voting shares of TIHL and each is a beneficial owner of one-third of TIHL.

Envesta Investments Limited ("EIL") is owned by the management of Globaltrans. Sergey Maltsev, Chief Executive Officer of Globaltrans beneficially owns 51% of the shares of EIL; Alexander Eliseev, Chairman of the Board of Directors of Globaltrans, Non-Executive Director beneficially owns 49%.

GROUP STRUCTURE

Globaltrans has two 100% owned operating subsidiaries in the Russian Federation, New Forwarding Company and Sevtekhnotrans.

The owner of the rolling stock, New Forwarding Company, is engaged in providing operating and leasing services to customers in Russia. In addition, as the owner of the ''Novaya Perevozochnaya Kompaniya'' (New Forwarding Company) brand, New Forwarding Company is responsible for marketing, sales and other customer-facing business activities of the Group. It is also the main contracting entity for freight rail transportation and other services provided by the Group.

НОВАЯ ПЕРЕВОЗОЧНАЯ

Branding of New Forwarding Company

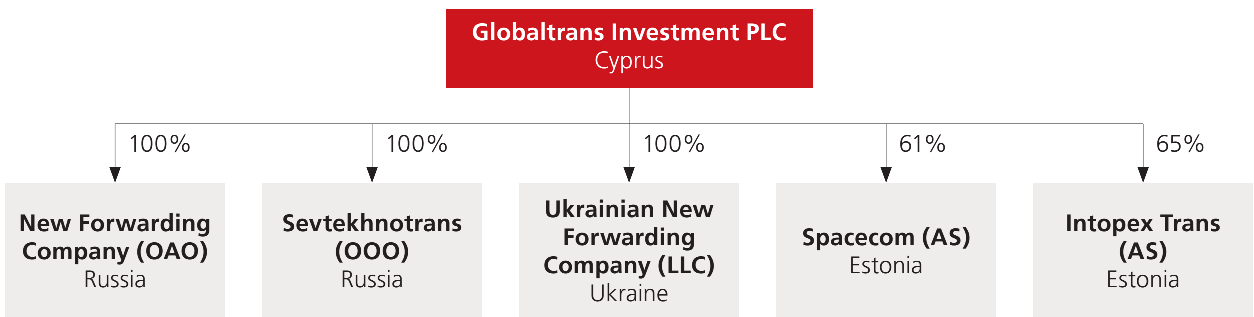
Sevtekhnotrans is the owner of the rolling stock and engaged in rail car leasing and freight forwarding services.

Ukrainian New Forwarding Company is a wholly owned operating subsidiary, established in Ukraine in September 2008. It is focused on the expansion of the Group's operations in the freight rail transportation market in Ukraine (no substantial investments have been made by the Group to the Ukrainian market in 2008).

Spacecom and Intopex are Estonian registered companies engaged in rail tank car leasing services, primarily to the markets of Russia and Kazakhstan. Globaltrans acquired 61% of Spacecom and 65% of Intopex in December 2008.

(See "Globaltrans Group structure" table below).

Globaltrans Group structure
(as of 31 December 2008)



Our Business

Globaltrans provides freight rail transportation, railcar leasing, and associated services to large industrial and medium sized corporate customers.

OVERVIEW

Freight rail transportation is the central value-added element in the Group's service offering. In 2008 Globaltrans' Freight Rail Turnover accounted for approximately 2.9% of the total freight rail turnover of Russia[16]. Globaltrans operates on Russia's partly liberalized railway transportation market. As an owner of rolling stock it sells freight transportation services to its clients based on an unregulated pricing. When providing freight rail transportation services, Globaltrans contracts locomotive traction and infrastructure usage from Russian Railways.

The two largest business segments for the Group are transportation of metallurgical cargo (including ferrous metals, scrap metals and iron ore) and oil and oil products, accounting respectively for 52% and 20% of the Group's Freight Rail Turnover.

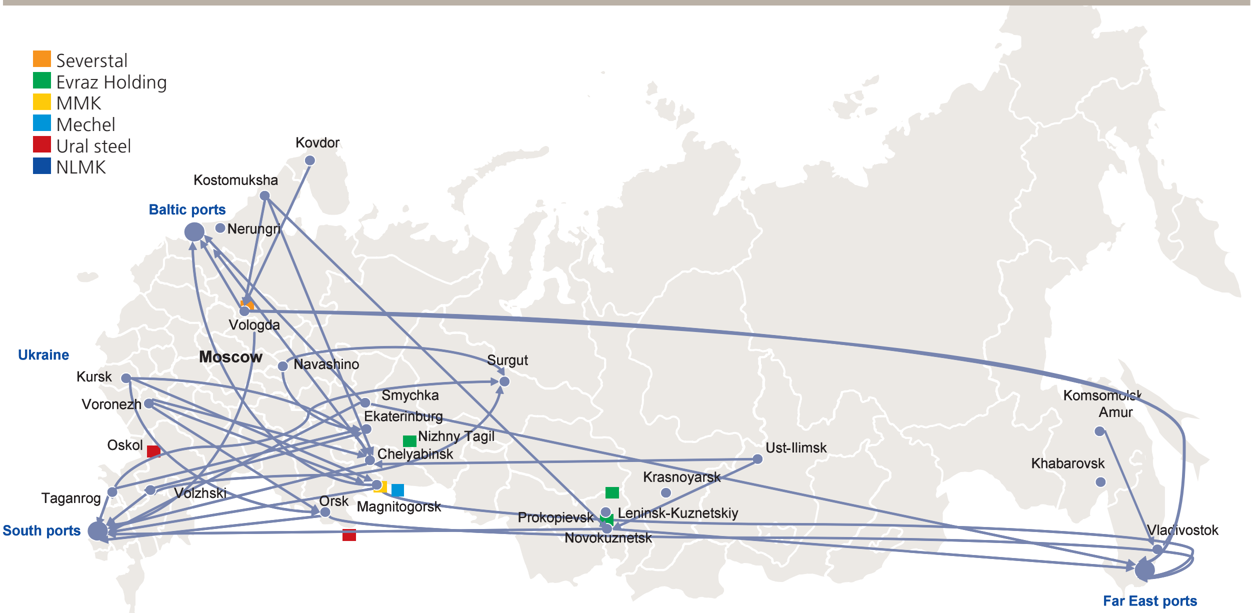
The Group's extensive transportation network includes more than 25,000 destinations covering every major industrial region in Russia and part of Ukraine, with a regional network encompassing nine branches and seven representative offices. Key clients of Globaltrans include companies from a number of large Russian blue-chip industrial groups and companies active in the oil, metals, mining, coal and other sectors of the Russian economy.

The Group's Freight Rail Turnover in 2008 totalled 61.7 billion tonnes-km with 33.3 million tonnes of freight transported.

The Group's Freight Rail Turnover (by cargo type, billion tonnes-km)

	2008	2008 % of total	2007	2007 % of total
Ferrous metals, scrap metals and iron ore	32.2	52%	32.1	53%
Oil and oil products	12.4	20%	16.7	27%
Construction materials	4.9	8%	3.5	6%
Coal (coking & energy coal)	8.3	13%	3.1	5%
Other	4.0	7%	5.7	9%
Total	**61.7**	**100%**	**61.0**	**100%**

Globaltrans: Metallurgy industry illustrative principal transportation routes in 2008



16. Source: Federal State Statistics Service of the Russian Federation.

Railcar leasing is the second major service offered by Globaltrans. In 2008 the Group significantly expanded its business of rendering leasing services having increased the number of rolling stock leased-out to 5,972 railcars (or approximately 22% of Rolling Stock Fleet) at the end of 2008 from 1,474 at the end of the previous year. The significant increase in number of rolling stock leased-out came from the acquisition of stakes in the leasing companies Spacecom and Intopex, the combined fleet of which amounted to 4,152 rail tank cars and 8 locomotives along with 128 rail tank cars leased-in under operating leases. Such a significant expansion of the leasing business enables the Group to complement its core operations of providing freight rail transportation services with the business of rendering leasing services in the light of the challenging environment experienced recently.

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

BUSINESS MODEL

Globaltrans' business model is based on:

- an extensive, modern rolling stock fleet, with a significant proportion of universal gondola (open top) cars, which enables the Group to cater to the high-volume transportation requirements of key industrial customers and react rapidly to changing sector demand;
- a strong customer focus and sophisticated logistics know-how, which enables the Group to provide complex rail transportation and logistics solutions tailored to the customer's needs;
- utilisation of advanced destination management and route optimisation, which reduces the Empty Run Ratio and maximises the efficient commercial utilisation of the Group's rolling stock.

The application of this business model has enabled the Group to acquire significant market positions, and helped it to withstand the sudden economic slowdown in 2008.

KEY ATTRACTIONS OF GLOBALTRANS

An extensive, modern rolling stock fleet

In 2008 Globaltrans maintained its leading position as the largest private freight rail operator[17] in Russia by size of Owned Rolling Stock Fleet, having successfully implemented its expansion programme along with acquiring two rolling stock leasing companies.

As of 31 December 2008 the Group's Rolling Stock Fleet was either owned or leased-in under operating and finance leases and amounted to 26,967 railcars, representing a significant increase of 26% or 5,638 railcars compared to 21,329 at the end of 2007.

Group's Rolling Stock Fleet (at period end)

	2008	2008 % of total	2007	2007 % of total
Gondola (open top) cars	15,467	57%	14,381	67%
Rail tank cars	10,360	38%	6,489	30%
Hopper cars	1,113	4%	402	2%
Locomotives	27	–	19	–
Other cars	0	–	38	–
Total	**26,967**	**100%**	**21,329**	**100%**

The backbone of the Group's Rolling Stock Fleet is formed by gondola (open top) cars which accounted for approximately 57% of the Group's Rolling Stock Fleet at the end of 2008 compared to 67% at the end of 2007. Notwithstanding the decrease in relative terms (caused by a strong increase in the rail tank car fleet), in absolute terms the number of gondola (open top) cars rose by 1,086 railcars in 2008. The general purpose universal gondola (open top) cars can be used to carry a wide variety of cargoes, including ferrous metals, scrap metals, ores, crushed stone, coal and timber.

Approximately 38% of the Group's Rolling Stock Fleet at the end of 2008 consisted of rail tank cars compared to around 30% at the end of previous year. This increase was a strategic response to the changed economic conditions as volumes of oil and oil products transportation showed more resilience compared to other sectors.

Hopper cars, a railcar type that has several sub-categories, are equipped to carry various dry cargoes, including grain, cement and fertilisers representing approximately 4% of the Group's Rolling Stock Fleet or 1,113 cars at the end of 2008 (compared to 2% at the end of 2007).

The fleet of locomotives increased by 8 units and reached 27 cars at the end of 2008. Eight of the locomotives added to the fleet in 2008 belonged to Spacecom and Intopex, which were acquired at the end of 2008.

At the end of 2008 the Group's Rolling Stock Fleet included 23,613 railcars owned and leased-in under finance leases ("Owned Rolling Stock Fleet") and 3,354 railcars leased-in from third parties under operating leases. The Group's Owned Rolling Stock Fleet is relatively young, with an average age of approximately 4.1 years at the end of 2008.

Group's Rolling Stock Fleet (at period end)

	2008	2008 % of total	2007	2007 % of total
Owned Rolling Stock Fleet	23,613	88%	17,425	82%
Rolling stock fleet leased-in under operating leases	3,354	12%	3,904	18%
Total	**26,967**	**100%**	**21,329**	**100%**

In 2008 Globaltrans significantly increased its fleet, adding 6,203 railcars to its Owned Rolling Stock Fleet (15 railcars were written off in 2008), of which 2,043 new railcars (1,344 gondola (open top) cars and 699 hoppers) were acquired from Russian and Ukrainian manufacturers and 4,152 rail tank cars, together with 8 locomotives were added through the acquisition of stakes in Spacecom and Intopex. An additional 257 railcars and 1 locomotive were purchased and partially pre-paid in 2008 and are awaiting delivery in 2009.

Globaltrans relies on operating leasing of rolling stock from third parties as a reliable way to enable it to react to changes in demand for freight rail transportation services without requiring significant capital outflows. As of 31 December 2008, the number of railcars leased-in under operating leases decreased by 14% to 3,354 railcars compared to the end of 2007, mostly driven by a substantial increase in leasing rates negotiated by lessors at the times of peak demand in the first half of 2008 and weak demand from certain sectors of the Russian economy in the fourth quarter of 2008.

17. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.

A SUPERIOR CUSTOMER BASE

The Group's customer base is focused on large Russian industrial groups with leading positions in the metals and mining and oil and oil products sectors of the Russian economy, including Severstal, MMK, Evraz, Ural Steel, Rosneft, Lukoil and RITEK. In 2008 the Group significantly increased sales to Mechel and its suppliers. Sales of the Group's services to operating companies of these eight key industrial groups and their suppliers represented approximately 69% of Net Revenue from Operation of Rolling Stock in 2008 compared to 71% in the previous year.

Customer groups and their suppliers (2008)

	Customer Sector	% of Net Revenue from Operation of Rolling Stock
Severstal	Metals and mining	11%
MMK	Metals and mining	13%
Evraz	Metals and mining	13%
Ural steel	Metals and mining	2%
Mechel	Metals and mining	2%
Rosneft	Oil and oil products	3%
Lukoil	Oil and oil products	20%
RITEK	Oil and oil products	5%
Other	Various	31%
		100%

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 characterized by high cargo volumes and a need for regular and timely delivery of raw materials and shipments of finished production.

Globaltrans also works with small and medium sized customers, which allows the Group to diversify its destinations and routes and reduce Empty Runs of rolling stock on return journeys. The presence of small and medium sized corporate customers among the overall customer base also supports expansion into new cargo types, as well as enhancing destination management and route optimization processes, and enables the Group to benefit from the economic development of the Russian regions.

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

EXCELLENCE IN DESTINATION MANAGEMENT AND ROUTE OPTIMISATION

Effective destination management and route optimization are among the cornerstones of the Group's business model. The Group is focused on increasing the efficient use of its rolling stock fleet through applying its route optimization techniques, increasing the use of block trains, continuing to reduce dwell time and optimizing maintenance and repair of its rolling stock.

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 the point of origin. This matching of routes and destinations creates efficient "route loops", where the Group's rolling stock carries cargo on each leg of the journey, thus enhancing the commercial utilisation of the Group's rolling stock fleet and driving revenue and margin. Continuing reduction of Empty Runs on existing and newly developed routes is also assisted by an ongoing expansion in customer relationships with small and medium sized corporate customers, the share of which in the Group's Net Revenue from Operation of Rolling Stock increased from 29% in 2007 to 31% in 2008.

According to the Group's management accounts, the Group managed to decrease the Empty Run Ratio for gondola (open top) cars from 39% in 2005 to 36% in 2006 and to 21% in 2007 as a result of expanded geographic coverage and better route optimization. The highest level of operating efficiency was achieved by the Group in the first six months of 2008, with the Empty Run Ratio for gondola (open top) cars improving to 19%. The changed economic circumstances later in the fourth quarter of 2008 (resulting in weak demand from certain industries) and the increased exposure to the transportation of coal (which provides minimal possibilities to optimise return routes), have raised the Empty Run Ratio for gondola (open top) cars to 32% for the whole 2008.

For rail tank cars and hoppers, optimization of the Empty Run Ratio is not practicable as the railcars return empty to the point of origin.

A BROAD FOOTPRINT WITH A COMPLEX AND EFFICIENT ROUTE NETWORK

Globaltrans has a complex route network with multiple domestic destinations extending to all major industrial regions of Russia, as well to certain regions in Ukraine and Kazakhstan. The Group's extensive operational network was mainly established in 2006-2007. It continued its development in 2008 in line with market demand and conditions.

Its wide geographic coverage enables the Group to provide a "one-stop-shop" service for its key customers with production facilities, suppliers and cargo destinations in multiple locations and reduces its dependence on particular railway routes and destinations.

Globaltrans is continuously looking to expand the geography of its activities in Russia and CIS. The establishment of a subsidiary in Ukraine and the acquisition of Spacecom and Intopex, which lease-out a substantial portion of their fleets of rail tank cars to the Kazakhstan market, provide greater exposure to the CIS markets and create new business opportunities in these regions.

PEOPLE AS A KEY SUCCESS FACTOR

Success and sustainability of the Group's business depends to a great extent on its employees, among whom are experienced figures in the industry with proven track records of achievement. Their understanding of the Russian railway sector has enabled them to devise effective route management programmes and to implement outstanding logistics solutions for their clients. The Globaltrans team has long-established relationships across the railway industry, including the federal government, regulators and other operators. It maintains close contact with its customers through dedicated client relationships teams.

Executive management

Globaltrans has a highly professional management team, which has been actively involved in the business since the introduction of a competitive transportation market. The team combines an entrepreneurial approach with the invaluable experience gained through many years' experience in the Russian freight rail transportation industry. See biographies of the Group's executive management on the next page.

18. Including impact of the acquisition of Spacecom and Intopex as of the end 2008; as of the end of 2007 – net of acquisitions.

Mr. Sergey Maltsev
Chief Executive Officer

Mr. Maltsev has served as an Executive member of the Board of Directors and has been the Chief Executive Officer of the Group since March 2008. Mr. Maltsev has more than 24 years of management experience, most of which has been acquired in the railway industry. He has a Railway Engineering degree.

Prior to joining the Group in 2008, Mr. Maltsev worked for Petra CJSC from 1993 until 1997 as head of the transportations department, then took up the same position at PromSnab LLC from 1997 until 1999. In addition, Mr. Maltsev has also held the position of counsellor to the Director-General of the New Forwarding Company, since 2007. Mr. Maltsev served as counsellor to the Director-General of MMK-Trans LLC, from 1999 until 2007.

Ms. Irina Alexandrova – Deputy Chief Executive Officer, Business Development

Ms. Alexandrova, the Group's Deputy Chief Executive Officer for Business Development, has served as the Chief Executive Officer of Sevtekhnotrans CJSC since September 2006. Ms. Alexandrova has more than ten years' management experience in the railroad industry.

Prior to becoming Chief Executive Officer of Sevtekhnotrans, Ms. Alexandrova was Deputy Head of the railroad department of Severstaltrans CJSC from June 1996 until September 2006 and prior to that worked as a leading specialist in the railroad department of Rosinturtrans LLC.

Mr. Valery Shpakov
First Deputy Chief Executive Officer

Mr. Shpakov, First Deputy Chief Executive Officer of the Group, has served as the Chief Executive Officer of the New Forwarding Company since April 2007. Mr. Shpakov has 34 years of industry experience. Prior to joining the Group, Mr. Shpakov worked at MMK-Trans LLC between 2000 and 2002 as head of the internal transportation department and as head of the railway wagons Department from 2002 to 2003.

Mr. Shpakov worked at Transgarant NPK as Director-General in 2003, prior to joining the Group. Prior to this appointment, he worked for the New Forwarding Company as Director-General between 2002 and 2003, as Executive Director between 2003 and 2005 and as First Deputy Director-General between 2005 and 2007.

Mr. Ilya Dudinskiy
Deputy Chief Executive Officer, Operations

Mr. Dudinskiy, the Group's Deputy Chief Executive Officer, Operations, has served as Deputy Chief Executive Officer of the New Forwarding Company since December 2006. Mr. Dudinskiy previously worked for the New Forwarding Company from April 2004 to June 2005, during which time he held several management roles.

He graduated from the Tsiolkovsky Moscow State Aviation Technology University with a Diploma with honours and a Masters degree in Technology. Mr. Dudinskiy has also completed an Economics and Finance Director course at the Institute of Business Administration of the Academy of National Economy for the Government of the Russian Federation.

Mr. Dudinskiy worked as Commercial Director of MMK-Trans LLC from June 2005 to December 2006. He had previously worked for MMK-Trans LLC in December 2001 to April 2004.

Mr. Alexander Shenets
Chief Financial Officer

Mr. Shenets is the Chief Financial Officer of Globaltrans and has served in this capacity since the establishment of the Group. He acted as head of the finance department and Chief Financial Officer at Sevtekhnotrans CJSC between June 2003 and October 2003. Mr. Shenets has more than six years' experience in finance, with more than four of these in the railway industry.

Mr. Shenets graduated from the faculty of Computational Mathematics and Cybernetics, Moscow State University and has a degree in Applied Mathematics. He also has a Master of Business Administration degree from the Graduate School of Business Administration, Moscow State University and a Candidate of Philosophy degree obtained at Bauman Moscow State Technical University. Prior to joining the Group, Mr. Shenets served as Finance Director for Metsnabservice LLC from June 2001 until May 2003.

Mr. Roman Goncharov
Head of Treasury

Mr. Goncharov, Head of Treasury of the Group, has served as Chief Financial Officer of New Forwarding Company since September 2007. Mr. Goncharov has more than six years of management experience in finance.

He studied at the Plekhanov Academy where he obtained a diploma with honours, and at the Russian Economics 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 Firma Transgarant LLC from December 2005 until September 2007, and prior to this he worked for Severstaltrans CJSC as a senior specialist from March 1998 until July 2001 and then as head of the finance department from July 2001 until November 2005.

Mr. Boris Torbin
Marketing Director

Mr. Torbin, Marketing Director of the Group, has served as Head of the Marketing and Development Department of New Forwarding Company since August 2007. Mr. Torbin has more than four years of management experience, most of which has been acquired in the railroad industry.

Prior to joining the Group, Mr. Torbin worked as Director-General of Apple Trans LLC from February 2007 to August 2007. Prior to this he worked as commercial director of TransLes LLC from February 2006 until January 2007, as commercial director of Lesnaya Transportnaya Kompania LLC from August 2005 until February 2006, as deputy commercial marketing director of Neokont LLC from October 2004 until June 2005, as marketing director for StS-KS LLC from June 2003 until September 2004 and as sales director for Maratons LTD from May 2001 until June 2003.

Mr. Sergey Vaselenko
Chief Information Officer

Mr. Vaselenko, Chief Information Officer of the Group, has served as Deputy General Director of Economy and Information Technology at the New Forwarding Company since March 2007. Mr. Vaselenko joined the New Forwarding Company in November 2004 and since then he has held various management positions there.

Mr. Vaselenko has more than 15 years of management experience. He studied at the Bauman Moscow State Technical University where he specialised in automated control and information processing systems. Mr. Vaselenko is also a qualified systems engineer. Prior to joining the Group, Mr. Vaselenko served as Deputy Director-General of business processes for Alpinor-M LLC from November 2001 until April 2004.

Financial and Operational Performance in 2008

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

For the principles of presentation of information see "Presentation of Information" on page 3.

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

	2008 USD mln	2007 USD mln	change USD mln	change %
Revenue	660.9	605.0	55.8	9%
Cost of sales	(401.4)	(419.9)	18.5	-4%
Gross profit	**259.5**	**185.1**	**74.3**	**40%**
Selling and marketing costs	(2.2)	(1.4)	(0.8)	59%
Administrative expenses	(52.7)	(45.0)	(7.7)	17%
Other gains – net	3.2	6.3	(3.1)	-49%
Operating profit	**207.8**	**145.0**	**62.7**	**43%**
Finance income	3.4	6.1	(2.8)	-45%
Finance costs	(99.8)	(30.0)	(69.8)	233%
Finance costs – net	(96.4)	(23.8)	(72.6)	305%
Share of profit/(loss) of associates	0.6	(0.7)	1.2	-184%
Profit before income tax	**111.9**	**120.6**	**(8.6)**	**-7%**
Income tax expense	(14.6)	(27.8)	13.3	-48%
Profit for the year	**97.4**	**92.7**	**4.6**	**5%**
Attributable to:				
Equity holders of the Company	90.9	86.4	4.6	5%
Minority interest	6.4	6.4	0.1	1%
	97.4	**92.7**	**4.6**	**5%**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	**0.82**	**0.86**	**(0.04)**	**-4.7%**

REVENUE

The following table sets out the revenue broken down by areas of revenue generating activity for the years ended 31 December 2008 and 2007.

	2008 USD mln	2008 %	2007 USD mln	2007 %	change USD mln	change %
Revenue						
Railway transportation – operators services (tariff borne by the Group)	241.4	36.5%	292.1	48.3%	(50.7)	-17%
Railway transportation – operators services (tariff borne by the client)	337.4	51.1%	252.8	41.8%	84.6	33%
Railway transportation – freight forwarding	5.4	0.8%	3.8	0.6%	1.6	43%
Operating leasing of rolling stock:	66.7	10.1%	51.7	8.5%	15.0	29%
Operating leasing of rolling stock (tank cars and open wagons)	55.0	8.3%	45.3	7.5%	9.7	21%
Operating leasing of locomotives and hoppers	11.6	1.8%	6.4	1.1%	5.3	82%
Sale of wagons and locomotives	9.7	1.5%	0.5	0.1%	9.3	1992%
Other	0.2	0.0%	4.2	0.7%	(4.0)	-95%
	660.9	**100.0%**	**605.0**	**100.0%**	**55.8**	**9%**

In 2008 Globaltrans recorded revenue of USD 660.9 million, an increase of USD 55.8 million or 9% from USD 605.0 million in 2007.

Revenue from railway transportation – operators services was mostly driven by increasing revenue from railway transportation-operators services (tariff borne by the client) which rose by USD 84.6 million or 33% in 2008 compared to the previous year. At the same time, revenue from railway transportation-operators services (tariff borne by the Group) decreased by USD 50.7 million or 17% compared to the previous year[19]. This change was due to clients increasingly preferring to pay infrastructure and locomotive charges directly to Russian Railways.

Revenue from operating leasing of rolling stock increased by USD 15.0 million or by 29% to USD 66.7 million in 2008 compared to the previous year. This was primarily driven by the increase in number of rolling stock leased-out, which rose by 6% at the end of 2008 compared to the end of 2007 (including Spacecom and Intopex both in 2007 and 2008), as well as improved leasing rates over the reporting period.

The Group also increased its revenue derived from railway transportation-freight forwarding which recorded a growth of USD 1.6 million to reach USD 5.4 million in 2008 due to an increase in the volume of freight-forwarding services rendered by the Group over the reporting period.

In 2008 the Group took advantage of its strong purchasing power with rolling stock manufacturers to purchase and subsequently resell rolling stock (wagons

19. In its freight rail transportation business, the Group's revenue and cost of sales, as reported under EU IFRS, are impacted by the type of contract entered into by its customers. The Group generally offers its customers two types of contracts:

 (i) a ''lump sum'' contract pursuant to which the customer is charged a single price for the entire transportation service, including the infrastructure and locomotive charges payable to Russian Railways which is borne by the Group, and

 (ii) a ''railcar charge only'' contract pursuant to which the customer pays only the railcar charge to the Group, and the infrastructure and locomotive charges for the ''loaded trip'' are payable by the customer to Russian Railways directly.

As a result, the Group's revenue and cost of sales can be significantly impacted by the type of contract entered into by new customers as well as changes in the mix of such contracts with existing customers. In particular, whilst an increase in the proportion of ''lump sum'' contracts is likely to increase the Group's revenue derived from such contracts, in parallel it will also increase the cost of sales associated with such contracts, as the relevant infrastructure and locomotive charges will be borne by the Group. For additional explanations see "Cost of sales, selling and marketing costs and administrative expenses" on page 29.

and locomotives) in excess of the Group's needs. Revenue derived from these transactions in 2008 reached USD 9.7 million. In the future, the Group does not expect to engage in any significant resale of rolling stock on an ongoing basis, although it may consider engaging in such activity on an opportunistic basis from time to time.

The Group's revenues in 2008 included USD 48.5 million derived from the combined operations of Spacecom and Intopex (here and after referred to as "Estonian subsidiaries"), which represented approximately 7% of the Group's revenue in 2008. Revenue contributed by the Estonian subsidiaries in 2008 decreased by USD 7.2 million compared to the previous year which was primarily due to the discontinuation of operators services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on the railcar lease business. The majority of the above revenue contribution derived from revenue from operating leasing of rolling stock which amounted to USD 39.8 million in 2008 compared to USD 31.2 million in 2007.

For the purpose of the further discussion and analysis of revenue, management believes that Net Revenue from Operation of Rolling Stock (in previous reporting referred to as "Adjusted Revenue") as an additional non-IFRS financial measure characterising the net revenue generated from operation of rolling stock should be introduced:

(i) it includes revenue arising from the Group's freight rail transportation business without infrastructure and locomotive tariffs: loaded trips (which are in principle a "pass through" for the Group); and

(ii) it excludes the impact of the acquisition of Spacecom and Intopex both in 2007 and 2008; as operators services were discontinued by Spacecom in the middle of 2008 and their share reached only 1.4% of the Group's revenue from railway transportation-operators services in 2008.

The following table sets out the Group's Net Revenue from Operation of Rolling Stock and its principal components for the years ended 31 December 2008 and 2007.

	2008 USD mln	2007 USD mln	change USD mln	change %
Net Revenue from Operation of Rolling Stock				
Railway transportation – operators services (tariff borne by the Group)	235.0	272.4	(37.4)	-14%
Railway transportation – operators services (tariff borne by the client)	337.4	252.8	84.6	33%
Minus				
Infrastructure and locomotive tariffs: loaded trips	(138.5)*	(172.4)*	33.9	-20%
	433.9*	**352.8***	**81.1**	**23%**

Globaltrans recorded significant growth in Net Revenue from Operation of Rolling Stock (net of the acquisition of Spacecom and Intopex) which increased by USD 81.1 million or by 23% to USD 433.9* million in 2008 compared to USD 352.8* million for the previous year. This increase was primarily driven by the following factors:

(i) Significant growth in Average Price per Trip, which rose by 32% to USD 816.0 in 2008 driven by:

- The approximately 22% increase in the time weighted average regulated tariff charged by Russian Railways in 2008[20], which in certain respects acts as a benchmark for private operators;
- The Group's continued focus on high revenue generating cargoes, which translated into the share of higher priced Class 3[21] cargo (which includes ferrous metals and scrap metals) increasing from 41% of Net Revenue from Operation of Rolling Stock in 2007 to 52% in 2008;
- The 6% increase in average distance of loaded trips travelled by the Group's rolling stock to 1,855.4 km in 2008 compared to the previous year as the result of the introduction of new sophisticated routes, especially in the Russian Far East, and the expansion of the Group's presence in the coal transportation segment;

20. For internal and external transportation via sea ports.
21. See the definitions and examples of classes of cargo at the "Definitions" section on page 46 of the Annual Report.

(ii) Average Rolling Stock Operated (which measures the average weighted (by days) number of railcars available for operators' services) remained broadly flat, decreasing slightly by 1% to 20,057. This decrease was mainly due to the decrease in the number of railcars leased-in, along with an increase in the number of railcars leased-out as well as the delivery of the majority of the purchased new railcars in the second half of 2008;

(iii) A decrease in the Average Number of Loaded Trips per Railcar by 6% to 26.5 in 2008 compared to the previous year, primarily due to a 6% increase in average distance for loaded trips over the same period.

COST OF SALES, SELLING AND MARKETING COSTS AND ADMINISTRATIVE EXPENSES

The following table sets out the principal components of the total cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2008 and 2007.

	2008 USD mln	2007 USD mln	change USD mln	change %
Total cost of sales, selling and marketing costs and administrative expenses				
Cost of sales	401.4	419.9	(18.5)	-4%
Selling and marketing costs	2.2	1.4	0.8	59%
Administrative expenses	52.7	45.0	7.7	17%
	456.3	**466.3**	**(10.0)**	**-2%**

The Group's total cost of sales, selling and marketing costs and administrative expenses decreased by USD 10.0 million or by 2% in 2008 to USD 456.3 million from USD 466.3 million in 2007.

For the purpose of further discussion and analysis of the Group's total cost of sales, selling and marketing costs and administrative expenses, its respective components were regrouped as presented below.

	2008 USD mln	2007 USD mln	change USD mln	change %
Infrastructure and locomotive tariffs:				
Empty Run Costs	86.7*	82.5*	4.3	5%
Services provided by other transportation organisations	14.5*	17.6*	(3.1)	-18%
Operating lease rentals – rolling stock	31.6	38.7	(7.1)	-18%
Repair and maintenance	56.5	44.0	12.5	28%
Other expenses (attributable to cost of sales)	0.4	1.3	(0.9)	-71%
Adjusted Cost of Sales	**189.7***	**184.0***	**5.7**	**3%**
Depreciation of property, plant and equipment[22]	45.7	38.6	7.1	18%
Infrastructure and locomotive tariffs: loaded trips	148.0	191.6	(43.6)	-23%
Employee benefit expense[22]	29.9	29.8	0.1	0%
Other expenses (attributable to cost of sales, selling and marketing costs and administrative expenses)	34.1	21.9	12.2	56%
Cost of wagons and locomotives sold in trading transactions (not part of PPE)	9.0	0.4	8.6	2125%
Total costs of sales, selling and marketing costs and administrative expenses	**456.3**	**466.3**	**(10.0)**	**-2%**

Management believes that Adjusted Cost of Sales as an additional non-IFRS financial measure illustrates better the Group's main cost drivers. It is defined as cost of sales under EU IFRS financial statements less:

(i) infrastructure and locomotive tariff: loaded trips (in principle a "pass-through" payment transferred by Globaltrans to Russian Railways on behalf of clients);

(ii) depreciation of plant, property and equipment assigned in EU IFRS financial statements to cost of sales;

(iii) employee benefit expense assigned in EU IFRS financial statements to cost of sales;

(iv) cost of wagons and locomotives sold in trading transactions;

(v) gain on sale of property, plant and equipment; and

(vi) other expenses (attributable to cost of sales).

The Group's Adjusted Cost of Sales increased by just USD 5.7 million or by 3% to USD 189.7* million in 2008 compared to the previous year. This increase was primarily driven by:

(i) An increase in Empty Run Cost of USD 4.3 million or 5% to USD 86.7* million in 2008 compared to 2007. This was primarily due to growth in the infrastructure and locomotive tariffs charged by Russian Railways along with an increase of Empty Run Ratio for gondola (open top) cars from 21% in 2007 to 32% in 2008. The increase in Empty Run Ratio for gondola (open top) cars was driven by substantial change in route and cargo mix including the increased share of coal transportation (which has limited opportunities for return cargo) resulting from the deterioration of transportation demand in the second half of 2008. However, the above effects, were partially offset by decreased share of empty kilometres paid by Globaltrans, which declined from 69% in 2007 to 63% in 2008;

22. Including costs allocated to cost of sales as well as to selling and marketing costs and administrative expenses as reported under EU IFRS.

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(ii) A decrease in costs for services provided by other transportation organizations of USD 3.1 million or 18% to USD 14.5* million in 2008 compared to 2007 as a result of the optimization of collaboration with other transportation organizations as well as increased Rolling Stock Fleet, which enabled the Group to satisfy its clients' needs itself;

(iii) A decrease in operating lease rentals – rolling stock costs of USD 7.1 million or 18% to USD 31.6 million in 2008 compared to the previous year. This decrease was primarily driven by the decline in number of railcars leased-in by the Group by 550 cars at the end of 2008 compared to the end of 2007;

(iv) An increase in repair and maintenance costs of USD 12.5 million or 28% to USD 56.5 million in 2008 compared to 2007. This increase was primarily due to growth in the number of scheduled repairs as a significant number of the Group's Owned Rolling Stock reached the age of three years, when a scheduled repair is needed for the first time. In addition, the price for repair and maintenance works increased in 2008 compared to the previous year.

The share of the Estonian subsidiaries in Adjusted Cost of Sales amounted to 2% or USD 3.8* million in 2008 compared to USD 12.5* million in 2007. The majority of the Adjusted Cost of Sales of the Estonian subsidiaries consisted of repair and maintenance costs.

Other (than included in the Adjusted Cost of Sales) major components that contributed to the increase in the Group's total cost of sales, selling and marketing costs and administrative expenses included:

(i) An increase in depreciation of property, plant and equipment of USD 7.1 million or 18% to USD 45.7 million in 2008 compared to 2007 primarily as a result of the expansion of the Group's Owned Rolling Stock Fleet;

(ii) A decrease in infrastructure and locomotive tariffs: loaded trips of USD 43.6 million year-on-year to USD 148.0 million in 2008. This decrease was due to clients increasingly preferring to pay infrastructure and locomotive charges directly to Russian Railways;

(iii) Employee benefit expense remained relatively stable, with the increase in average employee salaries being offset by a decrease in the total number of employees to 550 in 2008 from 620 in 2007, primarily driven by the discontinuation of operators services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on the railcar lease business;

(iv) Other expenses (attributable to cost of sales, selling and marketing costs and administrative expenses) increased by USD 12.2 million or by 56% to USD 34.1 million, primarily due to the legal, consulting and other professional fees associated with the expenses for the IPO of Globaltrans undertaken in May 2008 and auditors' remuneration;

(v) The cost of wagons and locomotives sold in trading transactions increased by USD 8.6 million to USD 9.0 million reflecting the cost associated with resale transactions (the nature of these transactions was discussed above). Revenue derived from these transactions in 2008 reached USD 9.7 million.

Total cost of sales, selling and marketing costs and administrative expenses in 2008 included USD 25.2 million derived from the combined operations of the Estonian subsidiaries, which represented approximately 6% of the Group's total cost of sales, selling and marketing costs and administrative expenses in 2008. The respective costs contributed by the Estonian subsidiaries in 2008 decreased by USD 18.6 million compared to the previous year, primarily due to discontinuation of operators services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on railcar lease business.

OPERATING PROFIT

The Group's operating profit amounted to USD 207.8 million in 2008, an increase of USD 62.7 million or 43% compared to the previous year. This increase was primarily due to the growth in the Group's revenue of USD 55.8 million as well as the USD 18.5 million decrease in the Group's cost of sales, which were partially offset by the USD 8.5 million increase in selling, marketing and administrative expenses in 2008 compared to the previous year.

The contribution of the combined operations of the Estonian subsidiaries to the operating profit of the Group amounted to USD 25.0 million or 12% in 2008 compared to USD 14.0* million or 10% in 2007.

FINANCE INCOME

Finance income decreased by 45% in 2008 to USD 3.4 million compared to the previous year. This decrease was primarily driven by the significant decrease in interest incomes on finance leases (when Globaltrans acts as a lessor) which were partially offset by increase in interest income on bank balances.

FINANCE COSTS

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

	2008 USD mln	2007 USD mln	change USD mln	change %
Finance costs				
Interest expense:				
Bank borrowings	16.4	15.4	1.1	7%
Finance leases	29.8	31.5	(1.7)	-5%
Loans from:	–	–		
Related parties	5.2	8.4	(3.2)	-38%
Third parties	0.5	0.9	(0.4)	-42%
Total interest expense	**52.0**	**56.2**	**(4.3)**	**-8%**
Net foreign exchange transaction (losses)/gains on financing activities	48.2	(26.7)	74.9	n/m
Other finance costs	(0.4)	0.4	(0.8)	n/m
	99.8	**30.0**	**69.8**	**233%**

Finance costs increased by USD 69.8 million or by 233% in 2008 to USD 99.8 million compared to the previous year, mostly due to net foreign exchange transaction losses on financing activities amounting to USD 48.2 million compared to net foreign exchange transaction gains of USD 26.7 million recorded in 2007. This was primarily the result of the significant depreciation of the Russian Ruble against the US Dollar during 2008 (the Russian Ruble depreciated against US Dollar by approximately 20% as of the end of 2008 compared to the end of 2007). Foreign exchange transaction losses and gains were derived from the Group's debt and finance lease portfolio, which is mostly denominated in US Dollars and therefore exposed to the RUR/USD exchange rate fluctuations.

Total interest expense decreased by USD 4.3 million or 8% in 2008 compared to the previous year and amounted to USD 52.0 million in 2008.

The finance cost of the Estonian subsidiaries amounted to 11% of the respective Group costs with interest expense amounting to 13.5% of respective Group's expense in 2008.

For further details see "Capital resources" on page 35.

PROFIT BEFORE INCOME TAX

Profit before income tax decreased by USD 8.6 million or by 7% in 2008 to USD 111.9 million compared to 2007. This decrease was primarily due to the substantial net foreign exchange transaction losses on financing activities recorded in 2008 in amount of USD 48.2 million, which offset the increase in the Group's operating profit.

INCOME TAX EXPENSE

In 2008 income tax expense amounted to USD 14.6 million and recorded a decrease of USD 13.3 million or 48% compared to 2007. This corresponded to a decrease in the weighted average applicable tax rate to 18.8% in 2008 from 21.1% in 2007. The change in the weighted average tax rate was primarily due to the increase of the proportion of profit before tax contributed by the Estonian subsidiaries (which have a zero corporate income tax rate) to the Group's results. The annual profit earned by the Estonian subsidiaries was therefore not taxed and thus no income tax or deferred tax asset/ liabilities arose. Therefore, the applicable tax rate for the Estonian subsidiaries was zero per cent in 2008.

During 2007 and 2008 the Russian subsidiaries were subject to a tax rate of 24%. However, an income tax rate of 20% was ratified in November 2008, and became effective from 1 January 2009. As this tax rate was passed by 31 December 2008, the effect of the change on closing deferred tax liabilities was recognized in the Group's financial statement for the year ended 31 December 2008.

ADJUSTED EBITDA

The following table sets out the reconciliation of Adjusted EBITDA to the Group's Profit for the years ended 31 December 2008 and 2007.

	2008 USD mln	2007 USD mln	change USD mln	change %
Profit for the year	**97.4**	**92.7**	**4.6**	**5%**
Plus				
Income tax expense	14.6	27.8	(13.3)	-48%
Net finance costs (excluding net foreign exchange transaction gains/(losses) on financing activities)	48.2	50.5	(2.3)	-5%
Depreciation of property, plant and equipment[22]	45.7	38.6	7.1	18%
EBITDA	**205.8**	**209.7**	**(3.9)**	**-2%**
Minus (Plus)				
Gains from sale of joint ventures	–	–	–	–
Gains from sale of subsidiaries	–	1.9	(1.9)	-100%
Recognized deferred gains	1.7	2.1	(0.3)	-17%
Net foreign exchange transaction gains/(losses)	(48.7)	27.9	(76.6)	-275%
Other gains (net)	2.0	1.1	0.9	82%
Share of profit/(loss) of associates	0.6	(0.7)	1.2	-184%
Adjusted EBITDA	**250.3***	**177.4***	**72.9**	**41%**

In 2008 Adjusted EBITDA amounted to USD 250.3* million, an increase of USD 72.9 million or 41% over 2007. This increase was primarily due to the increase in the Group's revenue of USD 55.8 million and the decrease in the Group's total cost of sales, selling and marketing costs and administrative expenses net of depreciation of property, plant and equipment of USD 17.0 million.

The Group's Adjusted EBITDA in 2008 included the contribution of the combined operations of the Estonian subsidiaries of USD 29.9* million or 12% of the Group's Adjusted EBITDA, compared to USD 18.2* million or 10% in 2007.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EXPENDITURE

The Group's capital expenditure has primarily been directed at funding the acquisition of rolling stock. In 2008 Globaltrans significantly increased its fleet, having added 6,203 railcars[23] to its Owned Rolling Stock Fleet, of which 2,043 railcars were acquired from Russian and Ukrainian manufacturers and 4,152 rail tank cars together with 8 locomotives were added through the acquisition of stakes in Spacecom and Intopex.

The capital expenditure, associated with fleet expansion in 2008 (excluding acquisition of stakes in Spacecom and Intopex) amounted to approximately USD 143.9* million.

In addition, 257 new railcars and 1 locomotive were contracted and partially pre-paid in 2008 and are awaiting delivery in 2009, which translated into USD 21.1* million of expenses recorded as "prepayments in non-current trade and other receivables" in 2008.

In December 2008 Globaltrans acquired 61% in Spacecom and 65% in Intopex for a combined cash consideration of USD 79* million payable over the next two years. This deferred payment was recorded on a discounted basis as "other payables to related parties in trade and other payables" in the financial year 2008. The transaction consideration implied a price per railcar[24] of approximately USD 50.8* thousand.

As of the end of 2008, the Group had the following repayment profile of the transaction consideration associated with acquisition of Spacecom and Intopex.

	2009E				2010E
	Q1	Q2	Q3	Q4	
Payments for equity stake in Spacecom and Intopex	30.0*	10.0*	–	13.0*	26.0*

The acquisition of Spacecom and Intopex along with contracting of 2,300 railcars and 1 locomotive over 2008 fulfils the Group capital expenditure plan for 2008 and 2009, thus no significant further capital expenditure is planned for 2009 unless any interesting opportunities arise.

CASH FLOWS

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

	2008 USD mln	2007 USD mln	change USD mln	change %
Net cash from operating activities	180.0	214.0	(34.0)	-16%
Net cash used in investing activities	(109.8)	(107.6)	(2.2)	2%
Net cash (used in)/from financing activities	11.8	(130.8)	142.6	-109%
Net (decrease)/increase in cash and cash equivalents	81.9	(24.4)	106.3	-435%
Cash and cash equivalents at beginning of year	31.0	57.2	(26.2)	-46%
Cash and cash equivalents at end of year	111.4	31.0	80.4	259%

23. 15 railcars were written off in 2008 due to becoming unserviceable.
24. Defined as 100% of enterprise value of the transaction divided by number of rail tank cars owned / leased-in under finance leases by Spacecom and Intopex as of 30 September 2008. Other fixed assets such as repair depot, 8 locomotives etc. are attributed a zero value.

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OPERATING ACTIVITIES

Net cash generated from operating activities decreased by USD 34.0 million or by 16% to USD 180.0 million in 2008 compared to USD 214.0 million in the same period of the previous year. This decrease was primarily due to an increase in the Group's working capital requirements, principally as a result of trade and other receivables increasing along with trade and other payables decreasing over the same period. In addition corporate income tax paid in 2008 increased compared to 2007.

INVESTING ACTIVITIES

Net cash used in investing activities in 2008 amounted to USD 109.8 million compared to USD 107.6 million in 2007.

Net cash used in investing activities in 2008 primarily consisted of the purchase of property, plant and equipment, which increased by USD 40.8 million or by 41% to USD 140.0 million compared to the previous year. During 2008 the Group entered into contracts for the supply of 2,300 new railcars (of which 2,043 were delivered by 31 December 2008) and 1 locomotive.

FINANCING ACTIVITIES

Net cash from financing activities in 2008 amounted to USD 11.8 million compared to net cash used in financing activities of USD 130.8 million in 2007.

In 2008 the Group received USD 209.1 million in proceeds from the issue of shares (IPO undertaken in May 2008) which was primarily invested in the expansion of the Group's Rolling Stock Fleet.

In addition, during 2008 the Group continued to deleverage. Net repayments of principal amounts of borrowings and financial leasing amounted to USD 124.5 million in 2008 compared to USD 42.4 million in 2007.

CAPITAL RESOURCES

The Group's financial indebtedness consisted of bank overdrafts, bank borrowings, loans from related parties and third parties and finance lease liabilities in an aggregate principal amount of USD 445.6 million (including accrued interest of USD 6.5* million) as of the end of 2008, recording a decrease of USD 100.9 million or 18% when compared to the previous year.

The Group's indebtedness as of the end of 2008 included USD 79.7* million arising from the consolidation of debts of the Estonian subsidiaries.

As of the end of 2008, the Group had USD 111.6 million in cash and cash equivalents. Net Debt as of the end of 2008 amounted to USD 334.0* million.

The Group's ratio of Net Debt to Adjusted EBITDA amounted to 1.3x* and 2.9x* for the years ended 31 December 2008 and 2007, respectively.

The Group's debt had maturity until 2015* and bore an average interest rate of 10.44%* as of the end of 2008 compared to 10.57%* as of the end of 2007.

As of the end of 2008, the interest payable on the Group's borrowings was determined by a fixed rate for 25%* of the borrowings, and by a floating rate with regard to the remaining 75%*.

	2008 USD mln	2008 %	2007 USD mln	2007 %	change USD mln	change %
Bank overdrafts	0.2	0%	2.3	0%	(2.1)	-91%
Bank borrowings	150.7	34%	178.3	33%	(27.5)	-15%
Loans from third parties	2.9	1%	6.3	1%	(3.4)	-53%
Loans from related parties	18.4	4%	78.9	14%	(60.5)	-77%
Finance lease liabilities	273.4	61%	280.8	51%	(7.4)	-3%
	445.6	**100%**	**546.6**	**100%**	**(100.9)**	**-18%**

As of the end of 2008, the carrying amounts of the Group's borrowings were denominated in the following currencies.

	2008 USD mln	2008 %	2007 USD mln	2007 %
US Dollar	387.3	87%	413.2	76%
Euro	0	0%	0.3	0%
Russian Ruble	57.7	13%	129.7	24%
Estonian Kroons	0.6	0%	3.4	1%
	445.6	**100%**	**546.6**	**100%**

The Group had the following borrowings repayment profile for 2009 as of the end of 2008.

USD (million)	2009E Q1	2009E Q2	2009E Q3	2009E Q4
Borrowings (carrying amount excluding accrued interest and future interest payments)	41.4*	29.6*	28.8*	18.0*

The Group had the following borrowings repayment profile for 2009 – onwards as of the end of 2008.

USD (million)	2009E	2010E	2011E	2012E	2013E -2015E
Borrowings (carrying amount excluding accrued interest and future interest payments)	117.8*	136.4*	86.6*	57.2*	41.1*

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's business involves a certain number of risks, the most notable of which are set out below.

One of the priorities of the Group's development strategy is risk control and the prevention of potential adverse effects of changes in its environment or situation.

The Board of Directors of Globaltrans has adopted a formal process to identify, evaluate and manage significant risks faced by the Group.

For the purpose of the following discussion, the risks are categorized against the following areas:

(i) business and industry;

(ii) Group's financial condition; and

(iii) country risks.

RISKS RELATING TO THE GROUP'S BUSINESS AND INDUSTRY

Ageing railway infrastructure operated by Russian Railways

The physical infrastructure and other assets owned and operated by Russian Railways, particularly its rail network, largely date back to Soviet times and have in many cases, not been adequately maintained. There can be no assurance that the age and insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not in the future lead to disruptions of the Group's business or increase the Group's costs of doing business.

Regulated tariff environment

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

Customer concentration

The Group's customer base is heavily dependent on a few large industrial groups and their suppliers, and any changes in the customers' positions in the market might directly affect the Group's business.

The Group is constantly expanding its customer base with a particular focus on small and medium sized companies and increasing sector diversification across the range of the freight it transports and markets at which it operates.

Relations with Russian Railways and government authorities

The Group is dependent to certain extent on the services and information provided by, and its relationship with, Russian Railways, an entity controlled by the state. Also, governmental authorities, both local and federal, are critical to the success of the Group's current and future plans.

RISKS RELATING TO THE GROUP'S FINANCIAL CONDITION

Foreign exchange risk

Currently most of the Group's borrowings and lease liabilities denominated in US Dollars, whereas most of the Group's expenses and revenues are denominated and settled in Russian Rubles.

The Group does not have formal arrangements for hedging the foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group also intends to re-finance some of its US Dollar denominated liabilities by obtaining 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 substantial portion of the Group's long term borrowings continue to be in US Dollars.

Cash flow and fair value interest rate risk

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

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

The Group obtains borrowings at current market interest rates and does not use any hedging instruments to manage interest rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates.

Credit risk

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

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

However, the Group's business is heavily dependent on a few large key customers (and their suppliers), which accounted for approximately 73.9% of the Group's trade and other receivables as at 31 December 2008 (2007: 68.5%).

In addition, current and non-current finance lease receivables arise from business with only one customer (two in 2007).

Liquidity risk

The Group has a net working capital surplus of USD 12.1 million as at 31 December 2008.

Management controls current liquidity based on expected cash flows and expected revenue receipts. From a long term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

COUNTRY RELATED RISKS

Fluctuations in the global economy

The current global recession is having a negative impact on the Russian economy as a whole, including the transport industry.

The Group's mid-term strategy is targeted at maintaining its business' strengths and competitive advantages to be well prepared to benefit from the global economy revival.

General emerging markets risk

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

Taxation

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

As a result, significant additional taxes, penalties and interest may be assessed.

COMMON CONTROL TRANSACTION

In December 2008, Globaltrans acquired from its parent entity (Transportation Investments Holding Limited) 61% shareholding in AS Spacecom, Estonia for a total consideration of USD 64.0 million and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of USD 15.0 million. Both companies are engaged in operating lease of rolling stock and Spacecom is also engaged in railway freight forwarding. Combined price of these transactions amounted to USD 79.0 million, which was below the lowest point of the combined valuation range of 61% of Spacecom's equity and 65% of Intopex's equity included in the fairness opinion provided by ING Bank N.V., London Branch.

In accordance with the accounting policies of the Group, the liability (deferred payment) for the consideration payable for the acquisition of Spacecom was recognised at the fair value of USD 61.7 million and Intopex at the fair value of USD14.4 million by discounting future payments to be made using the weighted average cost of capital.

The acquisition of 65% of Intopex and 61% of Spacecom has been accounted for as a common control transaction using the predecessor basis. The carrying value of their net assets as of 1 October 2004 and 14 November 2006 respectively, were used to account for the common control transaction reserve, since these are the dates common control has been established.

Rationale of these transactions included strengthening Globaltrans' business portfolio by

(i) increasing exposure to the oil and oil products transportation markets in Russia and Kazakhstan;

(ii) geographic diversification increasing penetration to CIS countries with a focus on Kazakhstan;

(iii) acquiring profitable, financially sound rail tank car leasing services businesses (with revenue stream denominated mostly in US dollars) with modern fleet of 4,152 rail tank cars.

For further details please refer to Note 30 of the consolidated financial statements on page 59 of Appendix 1 of the Annual report.

RELATED PARTY TRANSACTIONS

The Group considers parties 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.

Below is the summary of transactions which were carried out with related parties:

	2008 USD mln	2007 USD mln
Sales of services	91.8	156.0
Purchase of goods and services	33.5	57.4
Acquisitions of property, plant and equipment	10.4	11.3
Disposals of property, plant and equipment	0.1	0.04
Interest income	0.1	1.6
Interest expense	5.2	8.4
Directors' salaries/fees	0.3	–
Key management salaries and other short term employee benefits	4.7	8.0

Year-end balances with related parties

	2008 USD mln	2007 USD mln
Trade receivables	8.7	7.9
Other receivables	2.1	7.8
Prepayments	1.9	1.1
Finance lease receivable	-	18.8
Loans to related parties	-	3.4
Loans from related parties	18.4	78.9
Trade payables	1.7	9.9
Other payables		
The parent (consideration payable for the acquisition of Spacecom and Intopex)	76.0	–
Other	0.04	0.2
Advances received	5.5	11.2
Dividends payable	–	11.5

Group's borrowings and finance leases guaranteed by related parties as follows:

	2008 USD mln	2007 USD mln
Borrowings guaranteed by related parties	86.8	56.2
Finance lease and sale and leaseback contracts guaranteed by related parties	49.5	137.0

For further details on transaction with related parties, please refer to Note 29 of consolidated financial statements on page 53 of Appendix 1 of the Annual report.

Delivering our Strategy

The Group's strategic objective is to strengthen its leading position in the Russian freight rail transportation market by further leveraging its scalable business model.

In the course of 2008 the Group realized strategic objectives which it set for itself during this year. It reinforced its position as the leading operator in the private freight rail sector in Russia[25] by size of Owned Rolling Stock Fleet and has increased its geographical footprint.

The Group continued to diversify geographically into other CIS markets, establishing a subsidiary company to service the Ukrainian market, which will focus on the gondola (open top) car segment, and expanded into Kazakhstan through the acquisition of two railcar leasing companies with approximately 40%[26] of the rail tank cars fleet leased-out to the Kazakhstan market.

POSITIONING FOR GROWTH

At the time of its IPO Globaltrans set out its plans to continue the expansion of its rolling stock fleet to meet the demands of the growing Russian market. Globaltrans' fleet expanded in accordance with its plans until the market slowdown of the fourth quarter of the year when the Group's expansion strategy was adjusted to reflect the decrease in demand for transportation services from certain sectors of the Russian economy.

During 2008 the Group entered into a contract for the supply of 2,300 new railcars (of which 2,043 were delivered by 31 December 2008) and 1 locomotive. In accordance with the Group's strategy the majority of acquired railcars were general purpose gondola (open top) cars which can be used to carry a wide variety of cargoes.

In December 2008 the Group acquired majority stakes in Spacecom and Intopex, two Estonian registered companies specialising in rendering rail tank car leasing services to clients in Russia and Kazakhstan. The key rationale behind this transaction was to strengthen the Group's business portfolio by:

(i) increasing exposure to the oil and oil products transportation markets;

(ii) complementing core operations with the high margin leasing business;

(iii) increasing the US Dollar denominated revenues and access to low-interest funding.

The Group continues to believe in the mid term growth prospects of the freight rail transportation sector and sees longer term prospects for consolidation in the sector. Following the recent acquisitions and current challenging market conditions, Globaltrans is recalibrating its fleet expansion plans and therefore does not expect any significant capital expenditure for the acquisition of rolling stock in 2009. However, the Group retains the possibility of making selective investments if suitable opportunities arise.

CONSOLIDATING ITS POSITION AS A LEADING PROVIDER OF TAILORED LOGISTIC SOLUTIONS AND FURTHER EXPANSION OF THE CLIENT BASE

In 2008 the Group continued to leverage its strong customer focus based on the in-depth understanding of customer production processes and specific transportation needs. As a result, in 2008 Globaltrans increased its Net Revenue from Operation of Rolling Stock generated by each of its key clients (including their suppliers) – in the case of Severstal by 9%, of MMK by 59%, of EVRAZ by 87%, of Lukoil by 38% and of RITEK by 19%.

The Group believes that the strength of its customer relationships will enable it to maintain and potentially expand its market shares in the freight sectors it serves in a time of unfavourable market conditions, when a thorough understanding of production processes and transportation needs of clients combined with a track record of reliable and trustworthy relationships has become one of the competitive advantages required to preserve sustainable business.

In 2008 the Group continued building strategic relationships with small and medium sized corporate customers thus leveraging its destination management and route optimization along with increasing volumes of cargo carried. As of the end of 2008 the share of small and medium sized corporate customers amounted to 31% of the Group's Net Revenue from Operation of Rolling Stock compared to 29% in the previous year.

CONTINUING TO IMPROVE OPERATING EFFICIENCIES

The Group manages the dispatching and routing of its rolling stock so as to make its utilisation commercially efficient on outbound as well as return journeys by minimizing Empty Runs of its fleet. This is achieved by the Group's sophisticated centralised logistics function, and its operational coverage, which is extensive among Russian privately owned freight rail operators.

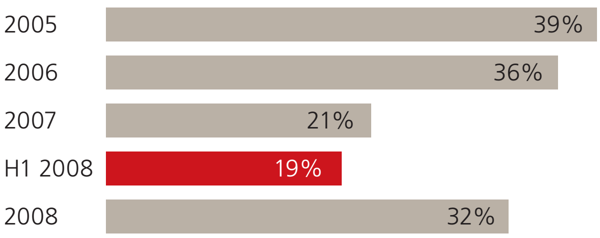
25. Based on publicly available information. For details see the table: "Largest private freight rail operators in Russia" on page 16.
26. As of the moment of acquisition of Spacecom and Intopex (December 2008).

In the first six months of 2008 the Group managed to attain an outstanding improvement in the Empty Run Ratio for gondola (open top) cars reaching 19% compared to 24% in the same period of the previous year. This became possible due to improved logistics planning and dispatch along with increased sales to small and medium sized corporate customers and favourable economic conditions.

In the second half of 2008 the Empty Run Ratio for gondola (open top) cars increased as a result of deteriorating demand and a changed route and cargo mix along with increased exposure to the transportation of coal.

The Empty Run Ratio for gondola (open top) cars for the whole year of 2008 averaged 32%. The Group's management expects it to improve once the new routes and cargo mix stabilise and demand from small and medium sized clients recovers.

Historical development of Empty Run Ratio for gondola (open top) cars



EXPLORING OPPORTUNITIES TO INCREASE ITS SERVICE OFFERING

Globaltrans maintains its strong interest in commencing locomotive traction services once this sector liberalizes and opportunities for private carriers emerge. In anticipation of its liberalization, the Group has obtained a carrier licence, built up a fleet of 27 locomotives (an additional locomotive has been contracted and is awaiting delivery in 2009) and established the required internal support systems, and is already operating some of its locomotives on short routes of stable demand to develop experience in the locomotive sector.

When liberalised, the locomotive traction services sector could become one of the most profitable segments in the freight rail transportation industry, providing significant competitive advantages to operators such as Globaltrans that own locomotives and use their momentum to gain relevant experience.

FACING THE CHALLENGES OF 2009

It is clear that 2009 will create very challenging conditions for all transportation companies, including Globaltrans. The Group has positioned itself to meet these challenges most effectively by:

(i) modifying the split of its target industry sectors; and

(ii) favourably complementing its strong franchise in providing operator services with expansion into the railcar leasing business.

In the immediate future, Globaltrans will continue to focus on increasing the efficiency of its operations (including the Empty Run Ratio) and minimizing the impact on the Group's operations from the low level of economic activity, which is expected to continue in 2009.

In 2009 Globaltrans intends to maintain its financial management and strong customer focus as well as achieving high levels of efficiency, in order to be well positioned for the revival of economic activity based on its existing platform for profitable growth.

Operational Information[27]

1. ROLLING STOCK FLEET

as of the end of 2008 includes impact of the acquisition of Spacecom and Intopex; as of the end of 2007 - net of acquisitions	2008	2007	change %
1.1. Rolling stock owned and leased-in under finance leases (at period end)			
Gondola (open top) cars	12,997	11,668	11%
Rail tank cars	9,489	5,337	78%
incl. Spacecom and Intopex	*4,152*	–	–
Hopper cars	1,101	402	174%
Locomotives	26	18	44%
incl. Spacecom and Intopex	*8*	–	–
Other cars	0	0	–
	23,613	17,425	36%
1.2. Rolling stock leased-in under operating leases (at period end)			
Gondola (open top) cars	2,470	2,713	-9%
Rail tank cars	871	1,152	-24%
incl. Spacecom and Intopex	*128*	–	–
Hopper cars	12	0	–
Locomotives	1	1	0%
Other cars	0	38	-100%
	3,354	3,904	-14%
1.3. Total rolling stock owned and leased-in under operating and finance leases (at period end)	26,967	21,329	26%
1.4. Rolling stock leased-out under operating leases (at period end)			
Gondola (open top) cars	250	172	45%
Rail tank cars	5,251	1,187	342%
incl. Spacecom and Intopex	*4,280*	–	–
Hopper cars	453	100	353%
Locomotives	18	15	20%
incl. Spacecom and Intopex	*3*	–	–
Other cars	0	0	0%
	5,972	1,474	305%
1.5. Average age of rolling stock owned and leased-in under finance leases (at period end)			
Gondola (open top) cars	4.0	3.1	–
Rail tank cars	4.4	2.8	–
Hopper cars	1.4	1.2	–
Locomotives	4.3	3.9	–
Other cars	0	0	–
	4.1	3.1	–

27. Derived from the management accounts.

2. OPERATION OF ROLLING STOCK

as of the end of 2008 and 2007, net of acquisitions		2008	2007	change %
2.1.	Freight Rail Turnover, billion tonnes-km	61.7	61.0	1%
2.2.	Freight Rail Turnover by cargo type, billion tonnes-km			
	Ferrous metals	25.6	22.0	16%
	Scrap metals	3.3	3.9	-15%
	Iron ore	3.3	6.3	-48%
	Oil and oil products	12.4	16.7	-26%
	Construction materials – crushed stone	1.2	1.5	-20%
	Construction materials – cement	2.4	1.3	80%
	Construction materials – other	1.3	0.7	93%
	Coal (coking and energy coal)	8.3	3.1	166%
	Other	4.0	5.7	-29%
2.3.	Transportation volume, million tonnes	33.3	35.4	-6%
2.4.	Transportation volume by cargo type, million tonnes			
	Ferrous metals	8.9	9.6	-7%
	Scrap metals	2.9	3.5	-17%
	Iron ore	1.7	3.8	-56%
	Oil and oil products	9.5	10.8	-12%
	Construction materials – crushed stone	1.1	1.2	-7%
	Construction materials – cement	1.2	0.2	408%
	Construction materials – other	0.7	0.5	46%
	Coal (coking and energy coal)	4.2	2.8	51%
	Other	3.1	3.1	-1%
2.5.	Transportation volumes by cargo class			
	Class 1	36%	39%	–
	Class 2	25%	28%	–
	Class 3	39%	34%	–
2.6.	Average Rolling Stock Operated			
	Gondola (open top) cars	14,588	14,212	3%
	Rail tank cars	5,028	5,992	-16%
	Hopper cars	428	95	352%
	Locomotives	4	4	0%
	Other cars	10	0	–
		20,057	20,303	-1%
2.7.	Average Number of Loaded Trips per Railcar			
	Gondola (open top) cars	25.0	27.7	-10%
	Rail tank cars	31.1	29.6	5%
	Hopper cars	22.4	4.1	451%
		26.5	28.2	-6%

2. OPERATION OF ROLLING STOCK (CONTINUED)

as of the end of 2008 and 2007, net of acquisition of Spacecom and Intopex	2008	2007	change %
2.8. Average distance of loaded trip, km			
Gondola (open top) cars	2,136.1	1,847.7	16%
Rail tank cars	1,277.5	1,550.2	-18%
Hopper cars	736.3	635.0	16%
	1,855.4	1,751.5	6%
2.9. Empty Run Ratio			
Gondola (open top) cars	32%	21%	–
Rail tank cars and hopper cars	100%	100%	–
2.10. Average Price per Trip, USD	816.0	616.8	32%
2.11. Net Revenue from Operation of Rolling Stock by cargo type, million USD			
Ferrous metals, scrap metals and iron ore	202.0*	165.2*	22%
Oil and oil products	132.0*	135.0*	-2%
Coal (coking and energy coal)	36.8*	10.4*	253%
Construction materials (incl. cement)	24.1*	10.3*	134%
Other	39.0*	31.9*	22%
	433.9*	352.8*	23%
2.12. Net Revenue from Operation of Rolling Stock by cargo class			
Class 1	23%	22%	–
Class 2	25%	37%	–
Class 3	52%	41%	–
2.13. Net Revenue from Operation of Rolling Stock by largest clients and their suppliers			
Severstal	11%	12%	–
MMK	13%	10%	–
Evraz	13%	9%	–
Ural steel	2%	4%	–
Mechel	2%	0%	–
Rosneft	3%	14%	–
Lukoil	20%	18%	–
RITEK	5%	5%	–
Other (small and medium size clients)	31%	29%	–
2.14. Empty Run Costs , million USD	86.7*	82.5*	5%
2.15. Share of empty kilometres paid by Globaltrans	63%	69%	–

3. EMPLOYEES

as of the end of 2008 includes impact of the acquisition of Spacecom and Intopex; as of the end of 2007 - net of acquisitions	2008	2007	change %
3.1. Employees by departments			
Operations	339	317	7%
incl. Spacecom and Intopex	*26*	–	–
Administrative	211	174	21%
incl. Spacecom and Intopex	11	–	–
	550	491	12%

4. STANDALONE OPERATIONAL INFORMATION OF SPACECOM AND INTOPEX

	2008	2007	change %
4.1. Rolling stock owned and leased-in under finance leases (at period end)			
Rail tank cars	4,152	4,152	0%
Locomotives	8	13	-38%
	4,160	4,165	0%
4.2. Rolling stock leased-in under operating leases (at period end)			
Rail tank cars	128	0	–
4.3. Total rolling stock owned and leased-in under operating and finance leases (at period end)	4,288	4,165	3%
4.4. Rolling stock lease-out under operating leases (at period end)			
Rail tank cars	4,280	4,152	3%
Locomotives	3	3	0%
	4,283	4,155	3%
4.5. Employees by departments			
Operations	26	117	-78%
Administrative	11	12	-8%
	37	129	-71%

Definitions
In alphabetical order

DEFINITIONS

Average Number of Loaded Trips per Railcar	is calculated as total number of loaded trips in the relevant year divided by Average Rolling Stock Operated.
Average Price per Trip (USD)	is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.
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).
Classes of Cargo	Tariff 10-01 differentiates between three classes of cargo – Classes 1, 2 and 3. Class 3 (which includes ferrous metals and scrap metals) attracts the highest prices and Class 1 (which includes iron ore and coal) the lowest. (i) **Examples of Class 1 cargo:** energy coal, coking coal; iron ore; natural construction materials (including crushed stone and sand); cement; wood; chemical raw materials for fertilizer production. (ii) **Examples of Class 2 cargo:** crude oil, gasoline, kerosene, diesel fuel; heating oil; fertilizers; bricks; agricultural machinery and equipment; asphalt; agricultural products; cast iron. (iii) **Examples of Class 3 cargo:** ferrous and non-ferrous metals and scrap metals; construction materials for industrial production; metal construction products; lubricants and oils; timber production; mineral wax and other dark oil products; machinery and equipment (except agricultural); automobiles; rubber, plastics and paint materials; organic and non-organic paint materials; alcohol products; soft goods.
Empty Run or Empty Runs	means movement of rolling stock without cargo for the whole or a substantial part of the journey.
Empty Run Ratio	is calculated as total empty trips in kilometres divided by total loaded trips in kilometres. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased-out).

DEFINITIONS (CONTINUED)

Freight Rail Turnover	is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.
Rolling Stock Fleet	is defined as the total rolling stock owned and leased-in under finance and operating leases.
Owned Rolling Stock Fleet	is defined as rolling stock fleet owned and leased-in under finance leases.

NON-IFRS FINANCIAL INFORMATION

Adjusted Cost of Sales	is defined as cost of sales less depreciation of property, plant and equipment, infrastructure and locomotive tariffs: loaded trips, employee benefit expense, and cost of rolling stock sold in trading transactions which are not part of PPE, gain on sale of property, plant and equipment and other expenses.
Adjusted EBITDA	represents EBITDA less gains from sale of joint ventures, gain from the sale of subsidiaries, recognized deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint ventures.
Empty Run Costs	is derived from the management accounts and presented as the part of the "Empty run trips and services provided by other transportation organizations" component of cost of sales reported under EU IFRS (excluding impact of acquisitions of Spacecom and Intopex).
Net Debt	is calculated as the balance of short term borrowings and long term borrowings including interest payable net of cash and cash equivalents.
Net Revenue from Operation of Rolling Stock	(in previous reporting referred to as "Adjusted Revenue") is defined as revenue from railway transportation operators services less infrastructure and locomotive tariff: loaded trips, it excludes impact of the acquisition and consolidation of AS Spacecom and AS Intopex Trans both in 2007 and 2008.
Return on Capital Employed ("ROCE")	is defined as Adjusted EBITDA after depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity, total borrowings and minority interest.

Corporate Governance

Overview
Board of Directors and its Committees
Dividends

Globaltrans is committed to maintaining the highest standards of corporate governance throughout the Group. In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance which aims to ensure that the interests of all company shareholders are given due consideration.

OVERVIEW

The Code is based on principles recommended by the UK Combined Code on Corporate Governance issued in 2008. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors' role is to provide entrepreneurial leadership to the Group. The Board of Directors sets the corporate strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors sets the Group's values and standards and ensures that its obligations to its shareholders are understood and met. The Board of Directors maintains a sound system of internal control and enterprise risk management to safeguard its shareholders' investment and the Group's assets.

The Board of Directors currently consists of seven members. For the composition of the Board of Directors and biographies of its members see page 51 of the Annual Report.

The Board of Directors has established three committees: the Audit Committee, the Nominations Committee and the Remuneration Committee.

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:

(i) the integrity of the Group's financial statements, including its annual and interim accounts, and the effectiveness of the Group's internal controls and risk management systems;

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

Remuneration Committee

The Remuneration Committee comprises three directors and meets at least once each year. The remuneration committee is chaired by Dr. Durrer and Mr. Zampelas and Mr. Eliseev are other members. The remuneration committee has as its remit the determination and review of, amongst other matters, the remuneration of executive directors and review of the Group's remuneration policies. The remuneration of independent directors is a matter 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.

The Board of Directors' report is presented in full in Appendix 1 "Directors Report and Consolidated Financial Statements" of the Annual Report.

DIVIDENDS

Pursuant to its Articles of Association Globaltrans may pay dividends out of its profits. To the extent that Globaltrans 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 Group 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.

Globaltrans 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 Group's subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the law.

During 2008, the Board of Directors declared and the shareholders approved the payment of an interim dividend in respect of the year ended 31 December 2008 of USD 0.89 per share, amounting to a total dividend of USD 8.9 million. The dividend was paid before 30 April 2008.

Mr. Alexander Eliseev
Chairman of the Board of Directors

Non-Executive Director
Member of the Remuneration Committee

Mr. Eliseev was appointed as Non-Executive Chairman of the Board of Directors in March 2008. In addition, Mr. Eliseev has been Chairman of the Board of Directors of the New Forwarding Company since 2003 and Chairman of the Board of Directors of Sevtekhnotrans since 2007. Mr. Eliseev has more than 14 years of management experience; most of which was acquired in the railway industry.

Mr. Eliseev graduated from the Second Moscow Medical Institute, Russian State Medical University where he studied Biophysics. Prior to joining the Group, Mr. Eliseev worked for MMK-Trans LLC as Chief Accountant from 1999 until 2000, then as Financial Director from 2000 until 2005 when he progressed to Deputy Director-General from 2005 to 2007. In addition, Mr. Eliseev served as Director-General at KPlus CJSC from December 1993 until February 1997, as Commercial Director at PromSnab LLC from March 1997 until October 1997 and as Director-General at Evraztrans CJSC from November 1997 until February 1999. Mr. Eliseev was a member of the Board of Directors at Neokont LLC from August 2004 until February 2006 and a member of the Board of Directors at Firma Transgarant LLC until 2006.

He has also been Chairman of the Board of Directors of Ural Wagon Repair Company CJSC since 2006 and Financial Director of Logistika i Transport LLC since 2007.

Mr. Sergey Maltsev
Executive Director

Chief Executive Officer

Mr. Maltsev has served as an Executive member of the Board of Directors and has been the Chief Executive Officer of the Group since March 2008. Mr. Maltsev has more than 24 years of management experience, most of which has been acquired in the railway industry. He has a Railway Engineering degree.

Prior to joining the Group in 2008, Mr. Maltsev worked for Petra CJSC from 1993 until 1997 as head of the transportations department, then took up the same position at PromSnab LLC from 1997 until 1999. In addition, Mr. Maltsev has also held the position of counsellor to the Director-General of the New Forwarding Company, since 2007. Mr. Maltsev served as counsellor to the Director-General of MMK-Trans LLC, from 1999 until 2007.

Mr. Konstantin Shirokov
Executive Director

Mr. Shirokov has served as an Executive Member of the Board of Directors since March 2008. He has been working as a financial manager of Transportation Investments Holding Limited ("TIHL"), one of the shareholders of Globaltrans Investment PLC, since 2005, and has been a member of the internal audit committee of TIHL since 2007. Mr. Shirokov has more than seven years' 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 Oxford Brookes University Business School, UK.

Prior to joining TIHL, Mr. Shirokov worked as Financial Director at Metsnabservice LLC from June 2003 until January 2005 and prior to that as financial manager for Uglemet LLC from July 2001 until May 2003. Mr. Shirokov also served as a Deputy Financial Director at Mechel OJSC from April 2000 until June 2001 and as an economist at Glencore International AG, Moscow office from September 1995 until March 2000.

Mr. Mikhail Loganov
Executive Director

Member of the Nomination Committee

Mr. Loganov has served as an Executive member of the Board of Directors since March 2008. He is currently Finance Manager for Leverret Holding Ltd, a position which he has held since May 2006. He holds also the position of Non-Executive member of the Board of Directors of Global Ports Investments Limited, Cyprus and the Chairman of its Audit Committee. Mr. Loganov joined the Group in June 2004 as a Finance Manager at Sevtekhnotrans LLC. Mr. Loganov has more than seven years' 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. Michael Zampelas
Senior Independent Non-Executive Director

Chairman of the Audit Committee, Member of Remuneration and Nomination Committees

Mr. Zampelas was appointed Independent Non-Executive member of the Board of Directors in March 2008. Mr. Zampelas has more than 30 years' management experience, he was also a founding member, Chairman and Managing Partner of Coopers & Lybrand, an accounting and consulting firm (which later became PricewaterhouseCoopers), in both Cyprus and Athens. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales. From 2002 until 2006, Mr. Zampelas was elected Mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus, a role he has held since 1997.

In addition, Mr. Zampelas has held the following positions over the last five years: (i) President of the Nicosia Sewerage Board, from January 2002 to December 2006; (ii) President of the Kofinou Slaughter House from January 2002 to December 2006; (iii) President of the Union of Municipalities in Cyprus from January 2002 to December 2004, and (iv) President of the Institute of Neurology and Genetics from April 1999 to March 2005. As of March 2008 he has served the Position of Vice-President of the Board of EFG Eurobank Cyprus Limited and the position of the chairman of the Audit Committee of EFG Eurobank Cyprus Limited.

Ms. Elia Nicolaou
Non-Executive Director

Member of the Audit Committee

Ms. Nicolaou was appointed Non-Executive member of the Board of Directors in March 2008. Ms. Nicolaou is currently the Director of legal and corporate services at Amicorp (Cyprus) Ltd, Nicosia, Cyprus, a position she has held since March 2007. Ms. Nicolaou has more than four years legal and management experience.

She graduated from the University of Nottingham, UK and has an LLB in Law. Ms. Nicolaou also has an LLM in Commercial and Corporate Law from University College London, UK and an MBA from the Cyprus International Institute of Management, Nicosia, Cyprus. She is also a member of the Cyprus BAR Association. Prior to joining the Group, Ms. Nicolaou worked as the head of the corporate law department at Polakis Sarris & Co. from July 2003 until March 2007. Prior to that she worked as a lawyer at C. Patsalides & Associates from 2002 until 2003.

Dr. Hans Durrer
Independent Non-Executive Director

Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Dr. Durrer was appointed Independent Non-Executive member of the Board of Directors in March 2008. Dr. Durrer has more than 30 years' management experience. Dr. Durrer graduated from the University of Zurich with a PhD in Economics and is a member of the Swiss Fiduciary Association. Dr. Durrer started his career in 1957 with the Union Bank of Switzerland in Geneva and became a financial analyst.

Dr. Durrer founded his own company, Fidura Treuhand AG, in 1970; the company provides book keeping, auditing and financial services to real estate companies. Dr. Durrer is a former President of the oil company Montafan AG, and a former Board member of the transport company IMT-Dienst AG. He currently serves as an Executive Board member of several privately held companies.

Corporate Social Responsibility

Globaltrans places a high importance on adhering to the best corporate social responsibility practices in its relations with society and stakeholders.

As part of its strategy of social development and investment, the Group implements programmes in the following key areas:

PERSONNEL AND CORPORATE CULTURE DEVELOPMENT

The Group implements specific employment policies with the aim of creating an efficient system for selecting and training our personnel and maximizing the development potential for Group employees, as well as providing adequate compensation through the implementation of a motivation and reward system.

The Group actively invests in personnel development and provides its employees with a wide range of opportunities for the development of their professional skills with the purpose of building their careers. This focuses on key competence, through professional training seminars, training sessions, practical business sessions and opportunities for study at leading Russian and foreign educational institutions. It has also put in place a mentoring system, which provides the opportunity to assure continuity through sharing the experience and knowledge acquired by more senior employees.

This effort is focused on the development of a positive corporate culture as well as on increasing the social interests of the employees. The Group provides its employees with a wide range of social benefits, from which they are allowed to select the components of their individual benefit portfolios. In addition, various corporate public entertainment events are organised for Group employees and their family members, including special activities for employees' children.

In 2008 Globaltrans continued to emphasise the protection of employee health and safety with 100% of workplaces certified and periodic employee medical examinations undertaken.

SUPPORT OF SOCIAL INITIATIVES

In keeping with its emphasis on contributing to social wellbeing, the Group's companies support various social initiatives for cultural and public entertainment events and the promotion of a healthy way of life.

In May 2008 New Forwarding Company (an operating subsidiary of Globaltrans) supported the children's art exhibition "My Family." This project was initiated by the Central House of Railroad Workers' Children. The event was a part of the 2nd International Conference "Transport in Russia".

In February 2008 New Forwarding Company became an official partner and active participant of the All-Russia Table Tennis Tournament dedicated to the 10th anniversary of the "Transport in Russia" newspaper. The tournament, which was organised to promote table tennis, began simultaneously in 21 regions of the country and attracted a record number of 23,000 participants.

CHARITY

The Group's companies consider it their duty to actively participate in philanthropic activities and focus particularly on this aspect. For many years the Group's companies have supported and assisted orphanages in various regions of the country. The Group's companies also provide regular support to pre-school educational institutions for underprivileged children.

New Forwarding Company supports a regional charity fund "Illustrated books for visually impaired children" which helps to provide specially designed and printed books for blind and visually impaired children. In autumn 2008 the fund implemented a wide programme of delivering such books to pre-school institutions and boarding schools for these challenged children in Yekaterinburg, Kemerovo, Novosibirsk, Chelyabinsk and other Russian cities.

Appendix 1: Directors report and consolidated financial statements

for the year ended 31 December 2008

Contents

DIRECTORS REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Board of Directors and other officers

Board of Directors

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

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

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

Mr. Sergey Maltsev (appointed 21 March 2008)
Executive Director
Chief Executive Officer

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

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

Mr. Konstantin Shirokov (appointed 19 March 2008)
Executive Director

Mr. Michael Thomaides (resigned 21 March 2008)
Executive Director

Board support
The Company Secretary is available to advise all Directors to ensure compliance with the Board procedures. Also a procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.

Company Secretary
Ms. Elia Nicolaou
Maria House
5th Floor
1 Avlonos Street
CY-1075 Nicosia
Cyprus

Registered office
20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements for the year ended 31 December 2008. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

Change of name and conversion into a public company

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment PLC and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The change of name was approved by the Registrar of Companies on 15 April 2008,

On 19 March 2008, the Company adopted a written resolution by which the Articles of Association of the Company were replaced with the amended Articles of Association of a public limited liability company in accordance with the provisions of the Companies Law, Cap 113.

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

Throughout the first part of the year, the Group took advantage of the favourable economic conditions to achieve strong operating and financial performance and towards the latter part of the year took the necessary steps to position the Group to manage the challenging conditions expected in 2009.

As a result, in 2008 the Group maintained its leading position as the largest private freight rail operator in Russia, significantly expanding its rolling stock fleet. The Group have continued its growth in 2008 with increase in its net profit compared to the year 2007 by US$4,635 thousand, increase in its total revenue by US$55,838 thousand and increase in its operating profit by US$62,733 thousand compared with 2007.

The market share of the Group remained relatively steady in 2008.

The net profit of the Group for the year ended 31 December 2008 was US$97,376 thousand (2007: US$ 92,741 thousand). On 31 December 2008 the total assets of the Group were US$996,060 thousand (2007: US$957,740 thousand) and net assets were US$421,442 thousand (2007: US$278,828 thousand). The financial position, development and performance of the Group as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

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

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

The Board has adopted a formal process to identify, evaluate and manage significant risks faced by the Group.

Future developments

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

The Group continued to diversify geographically into other CIS markets, establishing a subsidiary company to service the Ukrainian market and acquiring two Estonian subsidiaries engaged in the operating lease of rolling stock primarily to the markets in Russia and Kazakhstan.

Results

The Group's results for the year are set out on page 12. The Board of Directors recommended the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company's subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the law.

During 2008, the Board of Directors declared and the shareholders approved the payment of an interim dividend in respect of the year ended 31 December 2008 of US$0.89 per share, amounting to a total dividend of US$8,900,000. The dividend was paid before 30 April 2008 (Note 20).

Share capital
On 19 March 2008, the Company changed its authorized and issued share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares to the public.

Members of the Board of Directors
The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1.

Mr. Thomaides resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors in 2008 amounted to US$305,224 (2007: nil).

Events after the balance sheet date
The events after the balance sheet date are disclosed in Note 31 to the financial statements.

Branches
The Group operates through branches and representative offices, maintaining nine branches and seven representative offices during 2008, ten branches and six representative offices during 2007.

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

Going concern
Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the accounts based on the fact that, after making enquiries and following a review of the Group's budget for 2009, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

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

By Order of the Board

Alexander Eliseev
Chairman of the Board of Directors
Limassol
10 April 2009

Corporate governance report

The Group is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Group's Code of Corporate Governance which aims to guarantee that the interests of all company shareholders are given due consideration. The Code is based on principles recommended by the UK Combined Code on Corporate Governance issued in July 2003. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

Board of Directors

The Board leads the process for new Board members' appointments and makes recommendations to shareholders. In accordance with the terms of reference of the Board of Directors, all Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years for a Non-Executive Director is subject to particularly rigorous review, and takes into account the need for progressive refreshing of the Board.

The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1.

Mr. Thomaides, resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

The Role of the Board

The Board of Directors' role is to provide entrepreneurial leadership to the Group. The Board of Directors sets the corporate strategic objectives, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board of Directors sets the Group's values and standards and ensures that its obligations to its shareholders are understood and met. The Board of Directors maintains a sound system of internal control and enterprise risk management to safeguard its shareholders' investment and the Group's assets.

Board Performance

The Board held 16 meetings in 2008. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	10
Michael Zampelas	15
Hans Durrer	15
Sergey Maltsev	6
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

Evaluation of the Performance of the Board

The operation of the Board of Directors, its Committees and individual Directors is subject to annual evaluation. The evaluation of the Board of Directors and individual Directors' performance is made through self-assessment, cross-assessment or by an external third party.
The Non-Executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman of the Board of Directors.

The Board Committees
The Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee
The Audit Committee comprises two Directors, one of whom is considered to be independent, and meets at least four times each year. The Audit Committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The audit committee is responsible for considering, amongst other matters:

- the integrity of the Group's financial statements, including its annual and interim accounts, and the effectiveness of the Group's internal controls and risk management systems;
- auditors' reports; and
- the terms of appointment and remuneration of the auditor.

The committee supervises and monitors, and advises the Board of Directors on, risk management and control systems and the implementation of codes of conduct. In addition, the audit committee supervises the submission by the Company of financial information and a number of other audit-related issues. The audit committee also assesses the efficiency of the work of the Chairman of the Board of Directors.

The report of the Audit Committee can be found on page 6.

Nomination Committee
The Nomination Committee comprises three Directors and meets at least once each year. The Nomination Committee is chaired by Dr. Durrer; the other members being Mr. Zampelas and Mr. Loganov. The committee's remit is to prepare selection criteria and appointment procedures for members of the Board of Directors and to review on a regular basis the structure, size and composition of the Board of Directors. In undertaking this role, the committee refers to the skills, knowledge and experience required of the Board of Directors given the Group's stage of development and makes recommendations to the Board of Directors as to any changes. The committee also considers future appointments in respect of the Board of Directors composition as well as makes recommendations regarding the membership of the audit and remuneration committees.

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

The report of the Remuneration Committee can be found on page 8.

Board and Management Remuneration
Non-executive directors serve on the Board pursuant to the letters of appointment which are subject to approval by the shareholders at the Annual General Meeting. Such letters of appointment specify the terms of appointment and the remuneration of non-executive directors. Appointments are for one year.

Levels of remuneration for Non-Executive Directors reflect the time commitment, responsibilities of the role and membership of the respective committees of the Board. Directors are also reimbursed for expenses associated with discharge of their duties.

Refer to Note 29 to the Financial Statements for detail of remuneration paid to the members of key management.

AUDIT COMMITTEE REPORT

Role of the Audit Committee

The Audit Committee assists the Board of Directors in discharging its corporate governance responsibilities in relation to:

- the reliability and appropriateness of disclosures in the financial statements and external financial communication;
- the maintenance of an effective system of internal controls including financial, operational and compliance controls and a risk management system. The Audit Committee ensures, by means of suitable steps and appropriate information, that proper and satisfactory internal control and risk management systems are in place to identify and control business risks and that the Company's business, and that of its subsidiaries, is conducted in a proper and economically sound manner;
- preparation of recommendations to the shareholders for their approval at the General Meeting in relation to the appointment, reappointment and removal of the external auditor;
- approval of the remuneration and terms of engagement of the external auditor in respect of audit services provided;
- the audit process, including monitoring and review of the external auditor's performance, independence and objectivity; and
- development and implementation of the policy on non-audit services provided by the external auditor;
- monitoring compliance with laws and regulations and standards of corporate governance.

The Audit Committee assists the Board of Directors in its oversight of the performance and leadership of the internal audit activity.

Where the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it makes recommendations to the Board of Directors on action needed to address the issue or to make improvements.

The Composition of the Audit Committee

Since March 2008 the audit committee comprises two directors, one of whom is considered to be independent, and meets at least four times each year. The audit committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The composition of the Audit Committee is not fully compliant with the Combined Code, since the members of the Committee are not drawn wholly from the Board's independent non-executive directors.

Report of the activities of the Audit Committee in 2008

The Audit Committee met 19 times in 2008, including two meetings with the management of the Group and four meetings which were attended by the external auditors of the Group.

The principal issues which were considered during 2008 were:

- review of the external auditor's letter to the Audit Committee following their full year audit for 2007;
- review of the financial statements of the Company and consolidated financial statements of the Group for 2007 and recommended approval of the same to the Board of Directors;
- review of the Interim Financial results for 6 months of 2008 and recommended approval to the Board of Directors;
- review of the terms of appointment of the external auditor of the Group for the year 2008 and recommended re-appointment to the Board of Directors who in turn proposed the re-appointment of the external auditors to the Annual General Meeting of shareholders of the Company.
- oversight of the reporting process, review of the audit plan and closure process;
- review of the internal audit process and making enquiries and recommendations for the improvement of this function in 2009.

Non-audit services

It is the Group's policy not to engage the external auditor for services which may cause conflict of interest and affect their independence. According to the External Auditor Independence Policy, adopted by the Company in 2008, the External Auditor shall not provide prohibited services. In compliance with generally accepted principles, prohibited services include services where the External Auditor:

- participates in activities that are normally undertaken by management of the Company;
- is remunerated through success fees, contingent fees or commission;
- acts in an advocacy role for the Company;
- may be required to audit its own work.

In particular, the following services are determined as prohibited services:

- book-keeping or providing other services in relation to accounting records and financial statements;
- designing and implementing financial information systems or financial controls;
- providing valuation services, appraisals or fairness opinions;
- providing internal audit sourcing services in regard to financial processes and controls;
- seconding employees to the Company where the secondee acts as a Company officer or employee, or performs any decision-making, supervisory or ongoing monitoring function;
- providing human resources and recruitment services;
- providing actuarial services;
- providing management and directorship functions;
- providing legal services;
- providing broker-dealer, investment advisor or investment banking services;
- providing expert services unrelated to the external audit (e.g., advocacy in litigation proceedings, other than tax matters).

Evaluation of the operations of the Audit Committee and individual members

The operations of the Audit Committee and individual Directors shall be subject to annual evaluation. The evaluation of the Audit Committee and individual Directors' performance is made through self-assessment or by an external third party. The results of annual performance evaluation are communicated to the Chairman of the Board of Directors.

External Auditor

PricewaterhouseCoopers continues to serve as the external auditor of the Group and the Company for the fifth consecutive year; PricewaterhouseCoopers' foreign offices also act as the external auditors of all subsidiaries of the Company. According to internal procedures, the Company shall require the External Auditor to rotate the senior audit partner for the Company every seven years with suitable succession planning to ensure consistency.

REMUNERATION COMMITTEE REPORT

Since March 2008, the Remuneration Committee has comprised three directors. The Remuneration Committee is chaired by Dr. Durrer; Mr. Zampelas and Mr. Eliseev are the other members.

The Remuneration Committee is a committee of the Board of Directors which assists the Board of Directors in discharging its responsibilities in relation to remuneration of all Executive Directors and the Chairman of the Board of Directors. The main objective of the Remuneration Committee is to determine the framework and policy for the remuneration of the Executive Directors, the Chairman of the Board of Directors and senior executives, and the specific remuneration of each Executive Director and the Chairman of the Board and any compensation payments.

The remuneration committee met twice in 2008 to discuss its roles and responsibilities and to consider the appropriateness of the level of remuneration of the executive directors of the Company.

Remuneration information for 2008

The following section contains detailed information and commentary on the Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2008.

It should be noted that no director currently receives any long-term incentives, pension benefits or share interests.

The Non-Executive Directors receive fees from Globaltrans Investment PLC. No other remuneration is given in respect of their non-executive duties, such as annual incentives, share-based incentives or pension benefits. The level of their fees reflects their commitment and contribution to the Company.

Directors' remuneration

The remuneration of Directors who served during 2008 was as follows:

	Salary and/or fees US$000	US$000 2008 Total	2007 Total US$000
Alexander Eliseev	–	–	–
Michael Zampelas	72	**72**	–
Hans Durrer	112	**112**	–
Sergey Maltsev	286[1]	**286**	–
Elia Nicolaou	2	**2**	–
Konstantin Shirokov	–	–	–
Mikhail Loganov	120	**120**	–
Michael Thomaides	–	–	–

[1]Gross salary received in 2008 from OJSC New Forwarding Company in his capacity as Counsellor to the Director-General.

Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its group companies, both direct and indirect, of those who were Directors as at 31 December 2008 is shown below:

	Type of holding	Shares/Global Depositary receipts held at 31 December 2008	Shares held at 31 December 2007
Alexander Eliseev	Through shareholding in Envesta Investments Ltd	11,201,262[2]	1,470,000[1]
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456[2]	1,530,000[1]
Hans Durrer	GDRs of Globaltrans Investment PLC	100,000	–

[1]Total number of shares as at 31 December 2007 equalled 10,000,000

[2]Total number of shares as at 31 December 2008 equalled 116,959,064

The Report has been approved by the Board on 10 April 2009 and signed on behalf of the Board by Hans Durrer.

Directors' responsibility

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Each of the Director's confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 12 to 61) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as whole.

By order of the Board

Sergey Maltsev
Chief Executive Director

Mikhail Loganov
Director

Independent Auditors’ Report

To the Members of Globaltrans Investment PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Globaltrans Investment PLC (previously Globaltrans Investment Limited) (the “Company”) and its subsidiaries (the “Group”) on pages 12 to 61, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors’ Responsibility for the Financial Statements

The Company’s Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company’s financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 9 is consistent with the consolidated financial statements.

Other Matter

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

PricewaterhouseCoopers Limited

Chartered Accountants

Limassol, 10 April 2009

Consolidated income statement

for the year ended 31 December 2008

	Note	2008 US$000	2007 US$000
Revenue	5	660,870	605,032
Cost of sales	6	(401,397)	(419,897)
Gross profit		259,473	185,135
Selling and marketing costs	6	(2,179)	(1,374)
Administrative expenses	6	(52,735)	(45,003)
Other gains – net	7	3,209	6,277
Operating profit		207,768	145,035
Finance income	9	3,394	6,148
Finance costs	9	(99,777)	(29,950)
Finance costs – net	9	(96,383)	(23,802)
Share of profit/(loss) of associates	13	556	(658)
Profit before income tax		111,941	120,575
Income tax expense	10	(14,565)	(27,834)
Profit for the year		97,376	92,741
Attributable to:			
Equity holders of the Company		90,934	86,364
Minority interest		6,442	6,377
		97,376	92,741
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	25	0.82	0.86

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

Consolidated balance sheet

at 31 December 2008

	Note	2008 US$000	2007 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**741,915**	769,525
Trade and other receivables	16	**28,023**	20,467
Investment in associate	13	**926**	399
		770,864	790,391
Current assets			
Inventories	17	**660**	544
Trade and other receivables	16	**101,774**	132,624
Current income tax assets		**11,160**	852
Cash and cash equivalents	18	**111,602**	33,329
		225,196	167,349
TOTAL ASSETS		**996,060**	957,740
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	**11,696**	10,000
Share premium	19	**279,145**	61,560
Common control transaction reserve		**(158,527)**	(88,008)
Translation reserve		**(57,233)**	30,804
Capital contribution		**90,000**	90,000
Retained earnings		**230,036**	148,002
		395,117	252,358
Minority interest		**26,325**	26,470
		421,442	278,828
Non-current liabilities			
Borrowings	22	**321,318**	370,111
Trade and other payables	24	**24,129**	427
Deferred gains	21	**508**	1,507
Deferred tax liabilities	23	**15,563**	23,368
		361,518	395,413
Current liabilities			
Borrowings	22	**124,310**	176,451
Trade and other payables	24	**85,836**	102,632
Deferred gains	21	**920**	1,799
Current tax liabilities		**2,034**	2,617
		213,100	283,499
TOTAL LIABILITIES		**574,618**	678,912
TOTAL EQUITY AND LIABILITIES		**996,060**	957,740

On 10 April 2009 the Board of Directors of Globaltrans Investment PLC (previously Globaltrans Investment Limited) authorised these financial statements for issue.

Sergey Maltsev
Director

Mikhail Loganov
Director

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

Consolidated statement of changes in equity

for the year ended 31 December 2008

	Note	Share capital US$000	Share premium US$000	Common control transaction reserve[2] US$000	Translation reserve US$000	Capital contribution[1] US$000	Retained earnings US$000	Total US$000	Minority interest US$000	Total US$000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2007		10,000	61,560	51,992	11,632	4,325	89,138	228,647	17,966	246,613
Currency translation differences		–	–	–	19,172	–	–	19,172	2,412	21,584
Net income recognised directly in equity		–	–	–	19,172	–	–	19,172	2,412	21,584
Profit for the year		–	–	–	–	–	86,364	86,364	6,377	92,741
Total recognised income for 2007		–	–	–	19,172	–	86,364	105,536	8,789	114,325
Common control transaction	*30*	–	–	(140,000)	–	99,750	–	(40,250)	–	(40,250)
Dividend relating to 2006	*20*	–	–	–	–	–	(1,200)	(1,200)	–	(1,200)
Dividend relating to 2007	*20*	–	–	–	–	(14,075)	(26,300)	(40,375)	–	(40,375)
Advances from minority shareholders		–	–	–	–	–	–	–	34	34
Minority interest on disposal	*26*	–	–	–	–		–	–	(319)	(319)
Balance at 31 December 2007/ 1 January 2008		10,000	61,560	(88,008)	30,804	90,000	148,002	252,358	26,470	278,828
Currency translation differences		–	–	–	(88,037)	–	–	(88,037)	(1,083)	(89,120)
Net income recognised directly in equity		–	–	–	(88,037)	–	–	(88,037)	(1,083)	(89,120)
Profit for the year		–	–	–	–	–	90,934	90,934	6,442	97,376
Total recognised income for 2008		–	–	–	(88,037)	–	90,934	2,897	5,359	8,256
Issue of shares	*19*	1,696	223,012	–	–	–	–	224,708	–	224,708
Expenses directly related to issue of new shares	*19*	–	(5,427)	–	–	–	–	(5,427)	–	(5,427)
Interim dividend for 2008	*20*	–	–	–	–	–	(8,900)	(8,900)	–	(8,900)
Common control transaction	*30*	–	–	(76,023)	–	–	–	(76,023)	–	(76,023)
Minority interest on acquisition		–	–	5,504	–	–	–	5,504	(5,504)	–
Balance at 31 December 2008		**11,696**	**279,145**	**(158,527)**	**(57,233)**	**90,000**	**230,036**	**395,117**	**26,325**	**421,442**

[1]In May 2007, the shareholders of the Company transferred their shareholding in OOO Sevtekhnotrans to the Company. 28.75% of shares was acquired for a total consideration of US$40,250 thousand and the remaining shares (71.25%) with value of US$99,750 thousand were transferred for no consideration as capital contribution. The acquisition of OOO Sevtekhnotrans has been accounted as a common control transaction using the predecessor basis. In December 2007, the Company declared repayments of US$14,075 thousand from the capital contribution reserve as dividend distribution to the shareholders (Note 20). This reserve is distributable.

[2]In December 2008, the Company acquired from its parent entity 61% share of AS Spacecom and 65% share of AS Intopex Trans. The acquisition of AS Spacecom and AS Intopex Trans has been accounted as a common control transaction using the predecessor basis (Note 2 and 30).

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

Consolidated cash flow statement

for the year ended 31 December 2008

	Note	2008 US$000	2007 US$000
Cash flows from operating activities			
Profit before tax		111,941	120,575
Adjustments for:			
Depreciation of property, plant and equipment	12	45,707	38,645
Loss/(gain) on sale of property, plant and equipment	12	(2,596)	(1,675)
Fair value (gain)/loss on financial guarantees	9	(423)	411
Gain on disposal of subsidiaries	7	–	(1,897)
Interest income	9	(3,394)	(6,148)
Interest expense	9	51,980	56,232
Share of profit of associates	13	(556)	658
Exchange losses/(gains) on financing activities	9	48,220	(26,693)
Recognised deferred gain	7	(1,737)	(2,081)
		249,142	178,027
Changes in working capital:			
Inventories		(116)	(505)
Trade and other receivables		7,266	16,826
Trade and other payables		(46,685)	40,772
Cash generated from operations		209,607	235,120
Tax paid		(29,642)	(21,118)
Net cash from operating activities		179,965	214,002
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	26/30	–	(40,250)
Loans granted to third parties		(54)	(711)
Disposals of subsidiaries – net of cash disposed	26	–	(1,407)
Loans repayments received from related parties	29	3,128	830
Loans repayments received from third parties		300	551
Purchases of property, plant and equipment		(140,026)	(99,199)
Proceeds from disposal of property, plant and equipment	12	2,202	13,633
Interest received		3,390	5,967
Receipts from finance lease receivable		21,228	12,982
Net cash used in investing activities		(109,832)	(107,604)
Cash flows from financing activities			
Proceeds from borrowings		436,512	806,835
Repayments of borrowings		(520,553)	(808,682)
Finance lease principal payments		(81,372)	(82,225)
Interest paid		(53,257)	(58,299)
Proceeds from sale and finance leaseback transactions		40,880	41,654
Proceeds from issue of shares – net		209,087	–
Dividends paid to Company's shareholders		(19,542)	(30,123)
Net cash (used in)/from financing activities		11,755	(130,840)
Net (decrease)/increase in cash and cash equivalents		81,888	(24,442)
Exchange (losses)/gains on cash and cash equivalents		(1,522)	(1,746)
Cash and cash equivalents at beginning of year	18	31,024	57,212
Cash, cash equivalents and bank overdrafts at end of year	18	111,390	31,024

Non-cash transactions

The principal non-cash transactions consist of:

a) Finance leases as a lessor (Note 16)

b) Finance leases as a lessee (Note 22)

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

Notes to the consolidated financial statements

1 GENERAL INFORMATION

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

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment PLC and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113.

Approval of the consolidated financial statements
These Group consolidated financial statements were authorised for issue by the Board of Directors on 10 April 2009.

Principal activities
The principal activity of the Group, following the common control transaction in December 2008, is the provision of railway transportation services using own or leased rolling stock and operating lease of rolling stock.

Group structure
Globaltrans Investment PLC (previously Globaltrans Investment Limited) has direct and indirect shareholding in the following investments in subsidiaries:

				Effective % interest held	
Name	Status	Country of incorporation	Principal activities	2008	2007
OOO Sevtekhnotrans	Subsidiary	Russia	Railway transportation	100	100
OJSC New Forwarding Company	Subsidiary	Russia	Railway transportation	100	100
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	–
AS Spacecom	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	51
AS Skinest Veeremi	Subsidiary	Estonia	Operating lease of rolling stock	61	51
Hoover SIA	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	61	51
AS Intopex Trans	Subsidiary	Estonia	Operating lease of rolling stock	65	65

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans, companies engaged in operating lease of rolling stock and provision of freight forwarding services. The acquisition of both companies has been accounted for as a common control transaction using the predecessor basis and the consolidated financial statements for the year ended 31 December 2007 have been restated in order to reflect the acquisition (Note 2).

AS Skinest Veeremi and Hoover SIA are wholly owned subsidiaries of AS Spacecom, thus 61% indirect shareholding in AS Skinest Veeremin and 61% indirect shareholding in Hoover SIA was acquired via the acquisition of 61% shareholding in AS Spacecom.

The effective interest held by the parent entity as at 31 December 2007 in AS Spacecom was 51%, therefore, this share is shown as the effective interest held by the Company in AS Spacecom (and subsequently in its subsidiaries and associate) as at 31 December 2007 following the common control transaction in December 2008.

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation
The consolidated financial statements of Globaltrans Investment PLC (previously Globaltrans Investment Limited) have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the Cyprus Companies Law Cap. 113.

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2008 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting. IFRIC12 "Service Concession Arrangements" has been endorsed by the EU on 26 March 2009 and its mandatory effective date was changed from annual periods beginning on or after 1 January 2008 in IFRIC12 to an entity's first financial year starting after 29 March 2009 in the EU-endorsed version, but with earlier adoption permitted.

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

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

New standards, interpretations and amendments to published standards
The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective (Items marked with * have not been endorsed by the European Union (EU); the Company will only be able to apply new IFRS and IFRICs when endorsed by the EU):

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

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The expected impact is being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2009.
- IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009) – It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The effect is expected to be significant to the Group as there are qualifying assets. The expected impact is being assessed in detail by management. The Group will apply the Standard from 1 January 2009.
- IAS 1 (Revised 2007) Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009) – The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances. The Group will apply the Standard from 1 January 2009.
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group will apply the Standard from 1 January 2010.
- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements"* (effective from 1 July 2009) – The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Group will apply the Standard from 1 January 2010.
- Improving Disclosures about Financial Instruments – Amendment to IFRS7, "Financial Instruments and Disclosures" * (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Group will be required to dislose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantees contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) required disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Group will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- IFRS 1 (revised) 'First-time adoption'* (effective from 1 January 2009) – This standard that does not contain any technical changes as it only improves the structure, which had become complex due to the numerous amendments in recent years. The Group will apply the standard from 1 January 2009 but it is not expected to have any impact on the Group's financial statements.
- IFRS 2, Share-based Payment (Amendment 2008: Vesting Conditions and Cancellations) (effective from 1 January 2009) – The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the Standard from 1 January 2009 but it is not expected to have significant impact on the Group's financial statements.
- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate' (effective from 1 January 2009) – This amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements on transition to IFRS. An entity shall recognise a dividend from subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established. In addition when a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies certain criteria, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The Group will apply the standard from 1 January 2009 but it is not expected to have any impact on the Group's financial statements.
- IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation)* (effective from 1 January 2009) – These amendments address the classification of some puttable financial instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.
- IFRIC Interpretation 13 "Customer Loyalty Programmes" (effective from 1 July 2008) (EU IFRS: 1/1/2009) – Addresses the accounting for a company that awards customer loyalty credits.
- IFRIC 15, Agreements for the construction of real estate* (effective 1 January 2009) – Addresses the accounting for real estate sales.
- IFRIC 16, Hedges of a net investment in a foreign operation* (effective 1 October 2008) – Clarifies certain aspects in relation to net investment hedging.
- IFRIC 17, Distributions of non-cash assets to owners* (effective from 1 July 2009) – Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Group will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Group's financial statements.
- IFRIC 18, "Transfers of asset by customers"* (effective from 1 July 2009) – addresses the accounting of an asset received from a customer in return for connection to a network or ongoing access to goods and services.
- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement-Eligible hedged items'.* (effective from 1 July 2009) – This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

*Standards and interpretations which have not yet been endorsed by the European Union.

Basis of consolidation

Subsidiaries

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

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

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

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

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

Transactions with minority interest

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

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from other business segments. The Group's risks and returns are strongly affected by both differences in its products and services and the geographical areas in which it operates. Therefore, the Group has adopted a matrix presentation approach where both business and geographical segments are shown as primary segment reporting formats with full segment disclosures on each basis.

Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue from transportation services

The Group operates the following services:

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

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

There are three types of operator's services:

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

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

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

The Group also has a contractual relationship with the client to act as a legal intermediary for organising transportation services and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Group's clients, are not included in revenues and cost of sales; they are recorded on the Group's transit accounts as reimbursements. In this service the transportation is provided with the use of OAO "Russian Railway" rolling stock and the client is doing business with the OAO "Russian Railways" as the principal carrier. Consequently, only the Group's fees for intermediary activities are recognised as revenue. Receivables and liabilities that arise in the course of these activities are recognised as accounts receivable and accounts payable. Revenue is recognised in accordance to the stage of completion of the transaction.

Revenues from leasing

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

Revenues from sale of wagons and locomotives

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

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

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

Interest income

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

Dividend income

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other gains – net'.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the average of the average exchange rates for January to August and average monthly rates for the remaining months of the year, which approximates the exchange rate existing at the date of transactions; and,
- Share capital, share premium and all other reserves are translated using the historic rate.

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

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

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

Property, plant and equipment

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

Land is not depreciated.

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

	Number of years
Buildings	30
Hoppers, open wagons, cisterns and tank-wagons	25
Locomotives	15
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

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

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

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

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

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

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

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 suffered impairment are reviewed for possible reversal of impairment at each reporting date.

Leases

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

The Group is the lessee

Finance leases

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

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

Operating leases

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

Sale and leaseback

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

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

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

The Group is the lessor

Finance leases

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

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

Operating leases

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

Financial assets

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

Loans and receivables

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

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

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

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

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor/borrower, probability that the debtor/borrower will enter bankruptcy or financial recognition, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash and cash equivalents are carried at amortised cost using the effective interest method. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet.

Cash flow statement

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

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

Share capital

Ordinary shares are classified as equity.

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

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

Trade payables

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

Provisions and contingent liabilities

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

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

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

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Borrowings

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

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

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

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

Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except where the Group can control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Value Added Tax (VAT)

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

Employee benefits

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

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

Dividend distribution

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

Comparatives

The acquisition of 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans is a common control transaction and accounted for using the predecessor basis of accounting. Under this method the financial statements of the acquirees are included in the consolidated financial statements on the assumption that the Group was in existence for all periods presented. Necessary changes have been made to the comparative balances to conform with the Group's accounting policy (Note 30).

3 FINANCIAL RISK MANAGEMENT

Financial risks factors

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

Market risk

Foreign exchange risk

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

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

The strengthening of the Russian Rouble in real terms relative to the US dollar in recent years has been favourable to the Group by reducing the cost of its US dollar denominated borrowings. However, depreciation in the value of Russian Rouble against the US Dollar from December 2008 onwards, leads to the Group realising a foreign exchange loss on its US dollar denominated borrowings (Note 31). The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Rouble, which could have a material effect on its results of operations and financial condition.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2008 and 31 December 2007 are as follows:

	2008 US$000	2007 US$000
Assets	105,896	24,607
Liabilities	463,184	424,403
Capital commitments	–	32,418

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

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

Cash flow and fair value interest rate risk

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

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

Had US dollar and Euro lease and credit interest rates shifted by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post tax profit of the Group would have changed by US$2,437 thousand for the year ended 31 December 2008. Had the Russian rouble lease and credit interest rates shift by 2% (in the case of floating interest rates) and all other variables remained unchanged, the post tax profit of the Group would have changed by US$672 thousand for the year ended 31 December 2008 (2007: 1% change in US dollar, Euro and Russian rouble lease and credit interest rates, effect US$1,920 thousand).

The Group obtains borrowings at current market interest rates and does not use any hedging instruments to manage interest rate risk. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates.

Credit risk

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

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

However, the Group's business is heavily dependent on a few large key customers, accounting for 73.92% of the Group's trade and other receivables as at 31 December 2008 (2007: 68.46%).

These figures include trade and other receivables arising from business with related parties which account for 17.36% as at 31 December 2008 (2007: 36.86%).

In addition, current and non-current finance lease receivables arise from business with one customer only (two in 2007).

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2008 and 31 December 2007:

	Fully performing US$000	Past due US$000	Impaired US$000	Impairment provision US$000	Total US$000
As of 31 December 2008					
Trade receivables	10,244	26,888	2,634	(2,634)	37,132
Loans originated	120	–	–	–	120
Other receivables[1]	3,920	13,837	–	–	17,757
Finance lease receivables	6,993	–	–	–	6,993
	21,277	**40,725**	**2,634**	**(2,634)**	**62,002**
As of 31 December 2007					
Trade receivables	17,150	8,920	2,900	(2,900)	26,070
Loans originated	3,727	–	–	–	3,727
Other receivables[1]	10,636	7,009	–	–	17,645
Finance lease receivables	28,471	–	–	–	28,471
	59,984	**15,929**	**2,900**	**(2,900)**	**75,913**

[1]Other receivables exclude other taxes receivable as the analysis is provided for financial assets only.

Liquidity risk

The Group has a net working capital surplus of US$12,096 thousand (2007: deficit US$116,150 thousand) as at 31 December 2008.

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US$27,992 thousand for 2008 (2007: US$60,228 thousand), together with long-term borrowings (Note 22) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures.

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2008 and 31 December 2007. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US$000	Between one month and three months US$000	Between three and six months US$000	Less than one year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	Over five years US$000	Total US$000
As of 31 December 2008								
Borrowings	11,740	43,270	37,428	62,150	139,537	214,322	11,541	519,988
Trade and other payables[1]	34,505	13,442	9,507	12,406	24,129	–	–	93,989
	46,245	**56,712**	**46,935**	**74,556**	**163,666**	**214,322**	**11,541**	**613,977**
As of 31 December 2007								
Borrowings	26,861	91,053	29,371	67,208	154,767	278,192	19,684	667,136
Trade and other payables[1]	21,586	18,693	2,580	–	427	–	–	43,286
	48,447	**109,746**	**31,951**	**67,208**	**155,194**	**278,192**	**19,684**	**710,422**

[1] Statutory liabilities are excluded as the analysis is provided for financial liabilities only.

Capital risk management

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

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

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

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

The rates of borrowings to total capitalisation as at 31 December 2008 and 31 December 2007 are as follows:

	2008 US$000	2007 US$000
Total borrowings	**445,628**	546,562
Total capitalisation	**867,070**	825,390
Total borrowings to total capitalisation ratio (percentage)	**51.39%**	66.22%

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

Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 27).

ii) Recoverability of Advances issued

As at 31 December 2008, the Group issued advances for the purchase of rolling stock amounting to $21,092 (Note 16).

These advances are overdue, but management does not intend to recover them in cash, as this will result in damaging relations between the parties at the time when all companies experience financial difficulties. Thus the shipments will still be made at pre-crisis prices.

The Group have obtained letters of guarantee from suppliers and started to receive rolling stock, however with a substantial delay.

Management has incorporated rolling stock to be purchased with the use of advances issued in the rolling stock impairment testing, which has not resulted in any significant impairment loss.

Subsequent to year end 50 gondola cars and 14 platforms for a total amount of US$5,027 thousand have been received (Note 31). Management believes that all rolling stock contracted will be received..

Critical judgements in applying in Group's accounting policies

i) Revenue recognition

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

i) The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US$147,998 thousand for the year ended 31 December 2008 (US$191,591 thousand for the year ended 31 December 2007).

ii) The Group agrees with the customer the transport fee as above, excluding the OAO "Russian Railways" tariff which is paid by the Group and reinvoiced to the client as reimbursement. Management believes that OAO "Russian Railways" tariff should not be included in revenue and cost of sales as any variation in the tariff will be borne by the client. Had this OAO "Russian Railways" tariff been included in revenues and cost of sales, both would have increased by US$2,013 thousand for the year ended 31 December 2008 (US$5,195 thousand for the year ended 31 December 2007).

ii) Impairment of assets

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

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

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

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

As a result of tests performed no deficit of value in use over the net carrying value of rolling stock has been identified, consequently, no impairment loss has been recognised in these financial statements.

5 SEGMENTAL INFORMATION

Matrix presentation format – geographical and business segments
Previously, the Group operated mainly in the Russian Federation and the operations were not subdivided into smaller geographical segments.

Due to the fact that the Group acquired from its shareholder, 61% shareholding in AS Spacecom and 65% shareholding in AS Intopex Trans, companies incorporated in Estonia, the consolidated financial statements will provide a geographic segmental analysis in order to reflect the acquisition. The geographical segmental analysis is based on the location of the Group's assets.

Currently, the Group's risks and returns related to assets and operations are strongly affected by both differences in services (railway transportation and operating lease activities) and differences in the geographical areas in which it operates (Russia, Estonia and Ukraine). The subsidiaries operating in each of the segments are disclosed in Note 1.

Segment profit is obtained by allocating the activities of the respective subsidiaries into two main business segments:
- Railway transportation services;
- Operating lease of rolling stock.

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

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

Capital expenditure comprises additions to property, plant and equipment incurred by the respective subsidiaries.

Activity of resale of wagons and locomotives has been reduced and no longer constitutes a separately reportable segment and is included within 'other' business segment.

The Group does not have transactions between different business segments.

5 SEGMENTAL INFORMATION (continued)

The segment results for the year ended 31 December 2008 are as follows:

	Railway transportation services				Operating lease of rolling stock			Other	Total business segment				
	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	Unallocated US$000	**Group US$000**
Total segment revenue	595,941	8,698	–	**604,639**	6,674	39,831	**46,505**	9,726	612,341	48,529	–	–	**660,870**
Cost of sales	(370,286)	(10,494)	–	**(380,780)**	(1,187)	(10,464)	**(11,651)**	(8,966)	(380,439)	(20,958)	–	–	**(401,397)**
Selling, marketing and administrative expenses	(40,236)	(645)	(62)	**(40,943)**	–	(3,613)	**(3,613)**	–	(40,236)	(4,258)	(62)	(10,358)	**(54,914)**
Other gains – net	1,611	–	–	**1,611**	–	1,649	**1,649**	–	1,611	1,649	–	(51)	**3,209**
Operating profit/ Segment result	187,030	(2,441)	(62)	**184,527**	5,487	27,403	**32,890**	760	193,277	24,962	(62)	(10,409)	**207,768**
Finance income	468	–		**468**	–	20	**20**	–	468	20	–	2,906	**3,394**
Finance costs	(120,573)	–		**(120,573)**	–	(10,730)	**(10,730)**	–	(120,573)	(10,730)	–	31,526	**(99,777)**
Share of profit of associate	–	–		**–**	–	–	**–**	–	–	–	–	556	**556**
Profit before income tax	66,925	(2,441)	(62)	**64,422**	5,487	16,693	**22,180**	760	73,172	14,252	(62)	24,579	**111,941**
Income tax expense													**(14,565)**
Profit for the year													**97,376**

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

	Railway transportation services				Operating lease of rolling stock			Total business segment				
	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	Unallocated US$000	**Group US$000**
Impairment charge of receivables (Note 6)	(362)	–	–	**(362)**	–	(1,087)	**(1,087)**	(362)	(1,087)	–	–	**(1,449)**
Depreciation (Note 6)	(37,968)	–	–	**(37,968)**	(1,187)	(6,550)	**(7,737)**	(39,155)	(6,550)	–	(2)	**(45,707)**

The segments assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Railway transportation services				Operating lease of rolling stock			Other	Total business segment				
	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Russian subsidiaries US$000	Estonian subsidiaries US$000	Ukrainian subsidiary US$000	Unallocated US$000	**Group US$000**
Total assets	712,275	–	97	**712,372**	11,364	163,383	**174,747**	237	723,876	163,383	97	108,704	**996,060**
Total liabilities	378,985	10,967	5	**389,957**	64	83,449	**83,513**	–	379,049	94,416	5	101,148	**574,618**
Capital expenditure	144,665	–	5	**144,670**	–	415	**415**	–	144,665	415	5	15	**145,100**

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

	Railway transportation services			Operating lease of rolling stock			Other	Total business segment			
	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Russian subsidiaries US$000	Estonian subsidiaries US$000	Unallocated US$000	**Group US$000**
Total segment revenue	542,227	22,816	**565,043**	6,179	32,892	**39,071**	465	548,871	55,708	453	**605,032**
Cost of sales	(378,631)	(19,981)	**(398,612)**	(1,109)	(19,758)	**(20,867)**	(401)	(380,141)	(39,739)	(17)	**(419,897)**
Selling, marketing and administrative expenses	(38,445)	(1,597)	**(40,042)**	(2,081)	(2,432)	**(4,513)**	(12)	(40,538)	(4,029)	(1,810)	**(46,377)**
Other gains – net	1,989	–	**1,989**	2,097	2,036	**4,133**	–	4,086	2,036	155	**6,277**
Operating profit/Segment result	127,140	1,238	**128,378**	5,086	12,738	**17,824**	52	132,278	13,976	(1,219)	**145,035**
Finance income	109	–	**109**	–	13	**13**	–	109	13	6,026	**6,148**
Finance costs	(29,970)	–	**(29,970)**	(81)	778	**697**	–	(30,051)	778	(677)	**(29,950)**
Share of profit of associate	–	–	**–**	–	–	**–**	–	–	–	(658)	**(658)**
Profit before income tax	97,279	1,238	**98,517**	5,005	13,529	**18,534**	52	102,336	14,767	3,472	**120,575**
Income tax expense											**(27,834)**
Profit for the year											**92,741**

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

	Railway transportation services		Operating lease of rolling stock			Total business segment			
	Russian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	Unallocated US$000	**Group US$000**
Impairment charge of receivables (Note 6)	(1,948)	**(1,948)**	–	(144)	**(144)**	(1,948)	(144)	–	**(2,092)**
Depreciation (Note 6)	(31,218)	**(31,218)**	(1,208)	(6,218)	**(7,427)**	(32,426)	(6,218)	–	**(38,645)**

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

	Railway transportation services			Operating lease of rolling stock			Other	Total business segment			
	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Estonian subsidiaries US$000	**Total US$000**	Russian subsidiaries US$000	Russian subsidiaries US$000	Estonian subsidiaries US$000	Unallocated US$000	**Group US$000**
Total assets	723,518	1,216	**724,734**	14,920	178,522	**193,442**	1,810	740,248	179,738	37,754	**957,740**
Total liabilities	502,267	13,794	**516,061**	537	109,158	**109,695**	5,394	508,198	122,952	47,762	**678,912**
Capital expenditure	147,527	–	**147,527**	–	12,424	**12,424**	–	147,527	12,424	–	**159,951**

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

Year ended 31 December 2008

	Assets US$000	Liabilities US$000
Segment assets/liabilities	887,356	473,470
Unallocated:		
Deferred tax	–	15,563
Current tax	11,160	2,034
Current borrowings	–	2,731
Non-current borrowings	–	4,398
Property, plant and equipment	11	–
Receivables	9,960	–
Payables	–	76,442
Cash and cash equivalents	87,573	–
Total	**996,060**	**574,618**

5 SEGMENTAL INFORMATION (continued)

Year ended 31 December 2007

	Assets US$000	Liabilities US$000
Segment assets/liabilities	919,986	631,150
Unallocated:		
Deferred tax	–	23,368
Current tax	852	2,617
Current borrowings	–	2,732
Non-current borrowings	–	7,108
Receivables	35,037	–
Payables	–	11,937
Cash and cash equivalents	1,865	–
Total	957,740	678,912

Analysis of revenue by category:

	2008 US$000		
	Russian subsidiaries	Estonian subsidiaries	**Total**
Railway transportation – operators services (tariff borne by the Group)	235,010	6,414	**241,424**
Railway transportation – operators services (tariff borne by the client)	337,436	–	**337,436**
Railway transportation – freight forwarding	3,128	2,284	**5,412**
Operating leasing of rolling stock (tank cars and open wagons)	15,567	39,453	**55,020**
Operating leasing of locomotives and hoppers	11,263	378	**11,641**
Sale of wagons and locomotives	9,726	–	**9,726**
Other	211	–	**211**
Total revenue	612,341	48,529	**660,870**

	2007 US$000			
	Russian subsidiaries	Estonian subsidiaries	Unallocated	**Total**
Railway transportation – operators services (tariff borne by the Group)	272,443	19,641	–	**292,084**
Railway transportation – operators services (tariff borne by the client)	252,788	–	–	**252,788**
Railway transportation – freight forwarding	613	3,175	–	**3,788**
Operating leasing of rolling stock (tankers and open wagons)	14,362	30,952	–	**45,314**
Operating leasing of locomotives and hoppers	6,178	201	–	**6,379**
Sale of wagons and locomotives	465	–	–	**465**
Other	2,022	1,739	453	**4,214**
Total revenue	548,871	55,708	453	**605,032**

6 EXPENSES BY NATURE

	2008 US$000	2007 US$000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	147,998	191,591
Empty run trips and services provided by other transportation organisations	101,220	100,074
Operating lease rentals – rolling stock	31,604	38,660
Employee benefit expense	9,816	6,163
Repair and maintenance	56,470	43,950
Depreciation of property, plant and equipment	44,949	37,770
Gain on sale of property, plant and equipment	(2,523)	(1,672)
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	8,967	403
Other expenses	2,896	2,958
	401,397	419,897
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	758	875
Gain on sale of property, plant and equipment	(73)	(3)
Employee benefit expense	20,081	23,647
Impairment charge of receivables	1,449	2,092
Operating lease rental – office	4,191	3,210
Auditors' remuneration	1,585	867
Legal, consulting and other professional fees	9,858	390
Advertising and promotion	286	144
Communication costs	865	669
Information services	929	762
Taxes (other than income tax and value added taxes)	8,034	6,693
Other expenses	6,951	7,031
	54,914	46,377

	2008 US$000	2007 US$000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	45,707	38,645
Gain on sale of property, plant and equipment (Note 12)	(2,596)	(1,675)
Employee benefit expense (Note 8)	29,897	29,810
Impairment charge for receivables (Note 16)	1,449	2,092
Operating lease rentals – rolling stock	31,604	38,660
Operating lease rentals – office	4,191	3,210
Repairs and maintenance	56,470	43,950
Infrastructure and locomotive tariffs:		
Loaded trips	147,998	191,591
Empty run trips and services provided by other transportation organisations	101,220	100,074
Auditors' remuneration	1,585	867
Legal, consulting and other professional fees	9,858	390
Advertising and promotion	286	144
Communication costs	865	669
Information services	929	762
Taxes (other than income tax and value added taxes)	8,034	6,693
Other expenses	9,847	9,989
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	8,967	403
Total cost of sales, selling and marketing costs and administrative expenses	456,311	466,274

7 OTHER GAINS – NET

	2008 US$000	2007 US$000
Gain from sale of subsidiaries (Note 26)	–	1,897
Other gains	**2,147**	1,167
Other losses	**(146)**	(68)
Recognised deferred gains	**1,737**	2,081
Net foreign exchange losses (Note 11)	**(529)**	1,200
	3,209	6,277

8 EMPLOYEE BENEFIT EXPENSE

	2008 US$000	2007 US$000
Wages and salaries	**21,678**	19,870
Bonuses	**4,954**	6,664
Social insurance costs	**3,265**	3,276
	29,897	29,810

9 FINANCE INCOME AND COSTS

	2008 US$000	2007 US$000
Interest expense:		
Bank borrowings	**(16,449)**	(15,380)
Finance leases	**(29,817)**	(31,549)
Loans from:		
Related parties (Note 29 (d))	**(5,186)**	(8,394)
Third parties	**(528)**	(909)
Total interest expense	**(51,980)**	(56,232)
Net foreign exchange transaction (losses)/gains on financing activities (Note 11)	**(48,220)**	26,693
Other finance costs	**423**	(411)
Finance costs	**(99,777)**	(29,950)
Interest income:		
Bank balances	**1,842**	1,239
Finance leases – third parties	**1,161**	3,333
Finance leases – related parties (Note 29 (d))	**86**	1,523
Loans to:		
Related parties (Note 29 (d))	**9**	40
Third parties	–	11
Other	**296**	2
Finance income	**3,394**	6,148
Net finance costs	**(96,383)**	(23,802)

The Group was not engaged in any construction of assets during the year ended 31 December 2008 (2007: borrowing costs of US$1,648 thousand arising on financing specifically entered into for the construction of assets were capitalised and included in 'additions' in property, plant and equipment).

10 INCOME TAX EXPENSE

	2008 US$000	2007 US$000
Current tax:		
Corporation tax	**18,708**	19,156
Withholding tax	**653**	1,457
Defence contribution	**2**	101
Deferred tax (Note 23)	**(4,798)**	7,120
	14,565	27,834

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

	2008 US$000	2007 US$000
Profit before tax	**111,941**	120,574
Tax calculated at the applicable tax rates	**20,985**	25,510
Tax effect of expenses not deductible for tax purposes	**1,153**	228
Tax effect of allowances and income not subject to tax	**(3,469)**	1,259
Tax effect of utilisation of previously unrecognised tax losses	**(596)**	–
Tax effect of tax losses for which no deferred tax asset was recognised	**12**	568
Defence contribution	**2**	101
Tax effect of revaluation of deferred tax liabilities at current tax rates	**(3,522)**	–
Derecognition of deferred tax asset previously recognised	**–**	168
Tax charge	**14,565**	27,834

The weighted average applicable tax rate was 18.8% in 2008 (2007: 21.1%). The change in the weighted average tax rate is mainly due to the fact that the proportion of profit before tax contributed to the Group's results by the Estonian subsidiaries, who have zero corporation tax rate, has increased in 2008 compared with 2007.

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

During 2007 and 2008 the Russian subsidiaries (Note 1) were subject to a tax rate of 24%. An income tax rate of 20% has been enacted in November 2008 which becomes effective starting from 1 January 2009. As this tax rate was enacted by 31 December 2008, the effect of the change on closing deferred tax liabilities has been recognised in these financial statements.

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

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

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

11 NET FOREIGN EXCHANGE (LOSSES)/GAINS

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

	2008 US$000	2007 US$000
Net finance (costs)/income (Note 9)	**(48,220)**	26,693
Other gains – net (Note 7)	**(529)**	1,200
	(48,749)	27,893

12 PROPERTY, PLANT AND EQUIPMENT

	Rolling stock US$000	Land and buildings US$000	Motor vehicles US$000	Assets under construction US$000	Other US$000	Total US$000
At 1 January 2007						
Cost	674,191	1,421	2,556	4,414	2,648	685,230
Accumulated depreciation	(54,761)	(18)	(573)	–	(550)	(55,902)
Net book amount	619,430	1,403	1,983	4,414	2,098	629,328
Year ended 31 December 2007						
Opening net book amount	619,430	1,403	1,983	4,414	2,098	629,328
Additions	138,507	1,140	192	19,560	552	159,951
Disposals	(11,859)	–	(130)	–	(19)	(12,008)
Disposed through disposals of subsidiaries (Note 26)	–	–	(214)	(24,654)	(241)	(25,109)
Depreciation charge	(37,588)	(61)	(552)	–	(444)	(38,645)
Exchange difference	54,783	244	124	680	177	56,008
Closing net book amount	763,273	2,726	1,403	–	2,123	769,525
At 31 December 2007						
Cost	854,261	2,805	2,440	–	3,025	862,531
Accumulated depreciation	(90,987)	(79)	(1,037)	–	(903)	(93,006)
Net book amount	763,274	2,726	1,403	–	2,122	769,525
Year ended 31 December 2008						
Opening net book amount	763,273	2,726	1,403	–	2,122	769,524
Additions	143,920	304	379	–	497	145,100
Disposals	(5,004)	–	(155)	–	(85)	(5,244)
Depreciation charge	(44,661)	(94)	(479)	–	(473)	(45,707)
Exchange difference	(121,165)	(122)	(184)	–	(287)	(121,758)
Closing net book amount	736,363	2,814	964	–	1,774	741,915
At 31 December 2008						
Cost	871,353	2,987	2,276	–	3,064	879,680
Accumulated depreciation	(134,990)	(173)	(1,312)	–	(1,290)	(137,765)
Net book amount	736,363	2,814	964	–	1,774	741,915

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

	2008 US$000	2007 US$000
Net book amount	**5,244**	12,008
(Loss)/Profit on sale of property, plant and equipment (Note 6)	**2,596**	1,675
Consideration from sale of property, plant and equipment	**7,840**	13,683

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

	2008 US$000	2007 US$000
Cash consideration:		
– Received within year	**2,202**	13,633
– Received after year end	**6**	50
Consideration for the disposal of property, plant and equipment via reduction of prepayment made by the buyer	**5,632**	–
	7,840	13,683

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

	2008 US$000	2007 US$000
Cost – capitalised finance leases	**522,664**	575,839
Accumulated depreciation	**(71,893)**	(60,171)
Exchange difference	**–**	(1,543)
	450,771	514,125

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

	2008 US$000	2007 US$000
Rolling stock	**450,438**	513,685
Motor vehicles	**289**	440
Other	**44**	–
	450,771	514,125

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

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

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

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

	2008 US$000	2007 US$000
Rolling stock	**123,696**	136,843

Depreciation expense of US$44,949 thousand in 2008 (2007: US$37,770 thousand) have been charged to “cost of sales” and US$758 thousand in 2008 (2007: US$875 thousand) have been charged to administrative expenses.

13 INVESTMENT IN ASSOCIATE

	2008 US$000	2007 US$000
At beginning of year	**399**	991
Share of profit/(loss) after tax	**556**	(658)
Foreign exchange difference (loss)/gain	**(29)**	66
At end of year	**926**	399

The Group’s share of the results of its associate, which is listed 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
2008						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	30,044	16,591	38,604	2,199	25.27%
2007						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	33,893	21,954	30,608	(2,604)	25.27%

14 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$000	Total US$000
31 December 2008		
Financial assets as per balance sheet		
Trade and other receivables[1]	62,090	62,090
Cash and cash equivalents	111,602	111,602
Total	173,692	173,692

	Financial liabilities measured at amortised cost US$000	Total US$000
Financial liabilities as per balance sheet		
Borrowings	445,628	445,628
Trade and other payables[2]	93,984	93,984
Total	539,612	539,612

	Loans and receivables US$000	Total US$000
31 December 2007		
Financial assets as per balance sheet		
Trade and other receivables[1]	76,019	76,019
Cash and cash equivalents	33,329	33,329
Total	109,348	109,348

	Financial liabilities measured at amortised cost US$000	Total US$000
Financial liabilities as per balance sheet		
Borrowings	546,562	546,562
Trade and other payables[2]	43,285	43,285
Total	589,847	589,847

[1]Trade and other receivables do not include prepayments and taxes.
[2]Trade and other payables do not include accrued expenses, advances, statutory liabilities and payables to employees.

15 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating, if available. For accounts receivable with no external credit rating available management assesses credit quality by reference to the prior history of working with customers. Customers with longer history of working with the Group are regarded by management as having lower risk of default.

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

	2008 US$000	2007 US$000
Trade and other receivables		
Counterparties with external credit rating		
AA3	**2,982**	1,557
BB+	**–**	4
	2,982	1,561

	2008 US$000	2007 US$000
Counterparties without external credit rating		
Group 1	**16,547**	54,847
Group 2	**1,748**	3,576
	18,295	58,423
	21,277	59,984

Group 1 – Receivables from counterparties with more than one year of working history with the Group.
Group 2 – Receivables from counterparties with less than one year of working history with the Group.
Cash at bank and short-term bank deposits[1]

Agency	Rating	2008 US$000	2007 US$000
Fitch**	A–	179	15,101
Moody's*	AA	519	–
Moody's*	A2	–	1,905
Moody's*	Aa2	87,536	321
Moody's*	Aa3	2,620	–
Moody's*	Ba1	1,010	–
Moody's*	Ba3	7	–
Moody's*	Baa1	5,625	228
Moody's*	Baa2	45	15,114
Standard & Poor's***	BBB+	158	–
Standard & Poor's***	BBB	13,678	–
Other non-rated banks		223	598
		111,600	33,267

[1]The rest of the balance sheet item Cash and cash equivalents is cash on hand
*International rating agency Moody's Investors Service
**International rating agency Fitch Rating
***International rating agency Standard & Poor's

16 TRADE AND OTHER RECEIVABLES

	2008 US$000	2007 US$000
Trade receivables – third parties	31,056	21,090
Trade receivables – related parties (Note 29 (f))	8,710	7,880
Less: Provision for impairment of trade receivables	(2,634)	(2,900)
Trade receivables – net	37,132	26,070
Loans to third parties	120	364
Loans to related parties (Note 29 (g))	–	3,363
Other receivables	15,710	9,956
Other receivables – related parties (Note 29 (f))	2,135	7,795
Prepayments – related parties (Note 29 (f))	1,932	1,076
Prepayments – third parties	41,688	46,223
Finance lease receivables:		
Leases to third parties	6,993	9,705
Leases to related parties (Note 29 (f))	–	18,766
VAT recoverable	24,087	29,773
	129,797	153,091

	2008 US$000	2007 US$000
Less non-current portion:		
Prepayments[1]	(21,092)	(103)
Finance lease receivables:		
Leases to third parties	(4,443)	(7,048)
Leases to related parties	–	(9,589)
Other receivables – third parties	(74)	(107)
VAT Recoverable	(2,414)	(3,620)
Total non-current portion	(28,023)	(20,467)
Current portion	101,774	132,624

All non-current receivables are due until 2010.

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

	2008 US$000	2007 US$000
Financial assets:		
Trade receivables – third parties	28,580	18,190
Trade receivables – related parties	8,552	7,880
Loans to third parties	120	364
Loans to related parties	–	3,363
Other receivables	15,710	9,956
Other receivables – related parties	2,135	7,795
Finance lease receivables:		
Leases to third parties	6,993	9,555
Leases to related parties	–	18,586
Total financial assets	62,090	75,689

	2008 US$000	2007 US$000
Non-financial assets:		
Prepayments – related parties	**1,932**	1,076
Prepayments – third parties	**41,688**	46,223
VAT recoverable	**24,087**	29,773
Total non-financial assets	**67,707**	77,072
Total trade and other receivables	**129,797**	152,761

[1]Prepayments in non-current trade and other receivables represent prepayments for purchases of property, plant and equipment.

Receivables amounting to US$21,277 thousand (2007: US$59,984 thousand) were fully performing.

Receivables of US$40,725 thousand (2007: US$15,929 thousand) as of 31 December 2008 were past due but not impaired. These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance. Subsequent to the year end past due receivables amounting to US$31,869 thousand were collected (Note 31).

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

	2008 US$000	2007 US$000
Less than 1 month	**20,025**	6,385
From 1 to 3 months	**18,605**	6,774
From 3 to 6 month	**1,467**	1,684
From 6 months to 1 year	**337**	1,086
Over one year	**291**	–
	40,725	15,929

Trade receivables amounting to US$2,634 thousand (2007: US$2,900 thousand) as of 31 December 2008, were impaired and provided for in full. The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

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

	2008 US$000	2007 US$000
Currency:		
US dollar	**13,679**	23,704
Russian Roubles	**111,903**	125,832
Euro	**4,140**	2,964
Other	**75**	591
	129,797	153,091

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

	2008 US$000	2007 US$000
At 1 January	**2,900**	689
Provision for receivables impairment (Note 6)	**1,449**	2,092
Bad debt written off	**(2,226)**	(20)
Translation reserve	**511**	139
At 31 December	**2,634**	2,900

16 TRADE AND OTHER RECEIVABLES (continued)

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

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

The finance lease receivables are scheduled as follows:

	Less than 1 year US$000	Between 1 to 5 years US$000	Total US$000
At 31 December 2008			
Minimum lease receivable	3,321	4,773	**8,094**
Less: Unearned finance income	(771)	(330)	**(1,101)**
Present value of minimum lease receivables	2,550	4,443	**6,993**
At 31 December 2007			
Minimum lease receivable	15,136	18,504	**33,640**
Less: Unearned finance income	(3,302)	(1,867)	**(5,169)**
Present value of minimum lease receivables	11,834	16,637	**28,471**

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

The amount of the unguaranteed residual values accruing to the benefit of the Group is US$nil.

There are neither accumulated allowances for uncollectible minimum lease payments, nor contingent rent recognised as income.

The net investment in finance leases is analysed as follows:

	2008 US$000	2007 US$000
Receivable within one year	**2,550**	11,834
Receivable later than one year and not later than 5 years	**4,443**	16,637
Total	**6,993**	28,471

Average effective interest rate implicit in finance lease agreements at 31 December 2008 is 15.1% (2007: 14.4%).

17 INVENTORIES

	2008 US$000	2007 US$000
Raw materials and consumables	**660**	544

All inventories are stated at cost.

18 CASH AND CASH EQUIVALENTS

	2008 US$000	2007 US$000
Cash at bank and in hand	**94,283**	17,993
Short-term bank deposits	**17,319**	15,336
	111,602	33,329

The effective interest rate on short-term deposits was 4.02% (2007: 3.38%) in 2008 and these deposits have a maturity of 1 to 12 days (2007: 1 to 10 days).

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

	2008 US$000	2007 US$000
Cash and cash equivalents	**111,602**	33,329
Bank overdrafts (Note 22)	**(212)**	(2,305)
	111,390	31,024

The effective interest rate on bank overdrafts in 2008 was 10% (2007: 7%).

19 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital US$000	Share premium US$000	Total US$000
At 1 January 2007/31 December 2007/1 January 2008	10,000,000	10,000	61,560	71,560
Change of nominal value	90,000,000	–	–	–
Issue of shares	16,959,064	1,696	223,012	224,708
Incremental costs directly attributable to the issue of new shares	–	–	(5,427)	(5,427)
At 31 December 2008	116,959,064	11,696	279,145	290,841

The total authorised number of ordinary shares is 116,959,064 shares (2007: 10,000,000 shares) with a par value of US$0.10 per share (2007: US$1.00 per share). All issued shares are fully paid.

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares in the Company to the public.

The expenses directly attributable to the new shares issued amounting to US$5,427 thousand were capitalised against share premium.

20 DIVIDENDS

On 4 March 2008, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2008 of US$0.89 per share amounting to a total of US$8,900,000. The dividend was paid in the period from 31 March 2008 to 30 April 2008.

During 2007, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2006 of US$0.12 per share, amounting to a total dividend of US$1,200,000. Furthermore, during 2007, the Board of Directors declared payments of interim dividends in respect of the year ended 31 December 2007 of US$2.63 per share, amounting to a total dividend of US$26,300,000. An amount of US$20,900,000 was paid in 2007. The balance was paid in January 2008. During 2007, the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2007 of US$1.40 per share amounting to US$14,075,000. An amount of US$9,223,000 was paid in 2007. The balance was paid during the period from January to March 2008.

21 DEFERRED GAINS

	2008 US$000	2007 US$000
Current	920	1,799
Non-current	508	1,507
	1,428	3,306

Deferred gains represent gains deferred from sale and finance leaseback transactions entered by the Group for refinancing the purchase of railway tracks.

22 BORROWINGS

	2008 US$000	2007 US$000
Current		
Bank overdrafts (Note 18)	212	2,305
Bank borrowings	51,804	101,207
Loans from third parties	319	545
Loans from related parties (Note 29 (h))	2,817	5,554
Finance lease liabilities	69,158	66,840
	124,310	176,451
Non-current		
Bank borrowings	98,928	77,064
Loans from third parties	2,618	5,743
Loan from related parties (Note 29 (h))	15,562	73,367
Finance lease liabilities	204,210	213,937
	321,318	370,111
Total borrowings	445,628	546,562
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	72,102	77,134
Between 2 and 5 years	45,006	79,040
	117,108	156,174

	2008 US$000	2007 US$000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	104,443	95,451
Later than 1 year and not later than 5 years	216,351	249,655
Later than 5 years	11,625	19,761
Future finance charges of finance leases	(59,051)	(84,090)
Present value of finance lease liabilities	273,368	280,777
The present value of finance lease liabilities is as follows:		
Not later than 1 year	80,544	66,840
Later than 1 year and not later than 5 years	181,783	196,525
Later than 5 years	11,041	17,412
	273,368	280,777

Bank borrowings

Bank borrowings mature until 2013 and bear average interest of 11.08% (2007: 8.93%).

There were no defaults or breaches of loan terms during the year ended 31 December 2008.

Year ended 31 December 2008

The current and non-current bank borrowings amounting to US$48,971 thousand and US$96,126 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$5,635 thousand are unsecured.

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$20,433 thousand as at 31 December 2008 which as of 31 December 2007 was secured by pledge of the 26% of charter capital (participation interest) of OOO Sevtekhnotrans.

With effect from 15 April 2008 the pledge agreement in favour of International Finance Corporation for the pledge of 26% of charter capital of OOO Sevtekhnotrans has been terminated. Effectively from 15 April 2008, no shares of subsidiaries of the Company are pledged as collateral. The pledge agreement was replaced by a share retention agreement whereby the parent company is obliged to retain at least 26% of the share capital of the Company free and clean of any lien and additionally the Company to maintain 100% of the share capital of OOO Sevtekhnotrans free and clear of any lien.

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

The bank and financial institutions loans of a total amount of US$145,097 thousand are secured by property, plant and equipment at the carrying net book value of US$123,696 thousand (Note 12).

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

Furthermore, borrowings amounting to US$86,771 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$49,494 thousand are guaranteed by related parties (Note 29 (i)).

Year ended 31 December 2007

The current and non-current bank borrowings amounting to US$12,571 thousand and US$76,235 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$89,465 thousand are unsecured.

The current and non-current bank borrowings include a loan from International Finance Corporation, a subsidiary of the World Bank, amounting to US$25,714 thousand which is secured by pledge of the 26% of charter capital (participation interest) of OOO Sevtekhnotrans. This loan was jointly entered with other related parties and is also guaranteed by the parent of the Group. No other shares of subsidiaries of the Company were pledged as collateral.

The bank and financial institutions loans of a total amount of US$88,806 thousand are secured by property, plant and equipment at the carrying net book value of US$122,323 thousand (Note 12).

Furthermore, property, plant and equipment of a carrying net book value of US$14,520 thousand (Note 12) were pledged as collateral under non-current loan agreement between OAO "Swedbank" and a related party (Note 29 (i)).

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

Furthermore, borrowings amounting to US$56,184 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$137,013 thousand are guaranteed by related parties (Note 29 (i)).

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

	2008 US$000	2007 US$000
6 months or less	**310,736**	282,085
6 to 12 months	**47,706**	79,822
1 to 5 years	**87,186**	184,655
Over 5 years	**–**	–
	445,628	546,562

22 BORROWINGS (continued)

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

	Carrying amount		Fair value	
	2008 US$000	2007 US$000	2008 US$000	2007 US$000
Bank borrowings	**98,928**	77,064	**98,928**	77,064
Loans from third parties	**2,618**	5,743	**2,709**	5,976
Loans from related parties	**15,562**	73,367	**17,245**	74,816
Finance lease liabilities	**204,210**	213,937	**198,848**	205,265
	321,318	370,111	**317,730**	363,121

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime[1] rates.

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

	2008 US$000	2007 US$000
US Dollar	**387,277**	413,234
Euro	**26**	274
Russian Rouble	**57,712**	129,690
Estonian Kroons	**613**	3,364
	445,628	546,562

The Group has the following undrawn borrowing facilities:

	2008 US$000	2007 US$000
Floating rate:		
Expiring within one year	**24,929**	19,674
Expiring beyond one year	–	10,000
Fixed rate:		
Expiring within one year	**3,063**	30,554
	27,992	60,228

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

	2008	2007
Bank overdrafts	**10.00%**	7.00%
Bank borrowings	**11.08%**	8.93%
Loans from third parties	**8.80%**	12.00%
Loans from related parties	**8.61%**	9.91%
Finance lease liabilities	**10.22%**	11.80%

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

23 DEFERRED INCOME TAX

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

	2008 US$000	2007 US$000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**16,040**	26,725
– Deferred tax liability to be recovered within 12 months	**(477)**	(3,357)
Deferred tax liabilities (net)	**15,563**	23,368

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

	2008 US$000	2007 US$000
Beginning of year	**23,368**	14,917
Exchange differences	**(3,007)**	1,331
Income statement charge (Note 10)	**(4,798)**	7,120
End of year	**15,563**	23,368

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

Deferred tax liabilities	Property, plant and equipment US$000	Lease liability US$000	Tax losses US$000	Trade and other payables US$000	Other assets US$000	Other liabilities US$000	Total US$000
At 1 January 2007	50,836	(51,160)	–	(639)	(1,341)	17,221	14,917
Charged/(credited) to:							
Income statement (Note 10)	9,664	1,246	–	(1,569)	(2,247)	26	7,120
Translation differences	4,048	(3,669)	–	(111)	(190)	1,253	1,331
At 31 December 2007/ 1 January 2008	64,548	(53,583)	–	(2,319)	(3,778)	18,500	23,368
Charged/(credited) to:							
Income statement (Note 10)	(2,134)	6,035	(638)	1,576	(10,770)	1,133	(4,798)
Translation differences	(10,772)	7,891	98	244	19,186	(19,654)	(3,007)
At 31 December 2007	51,642	(39,657)	(540)	(499)	4,638	(21)	15,563

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

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

The Group did not recognize deferred income tax assets of US$12 thousand in 2008 (2007: US$568 thousand) in respect of cumulative tax losses amounting to US$48 thousand (2007: US$5,683 thousand) as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

24 TRADE AND OTHER PAYABLES

	2008 US$000	2007 US$000
Current		
Trade payables to third parties	13,855	20,572
Trade payables to related parties (Note 29 (f))	1,650	9,851
Other payables to related parties (Note 29 (f))	51,932	152
Other payables to third parties	2,558	1,009
Accrued expenses	2,647	9,185
Advances from customers[1]	7,731	39,199
Advances from related parties (Note 29 (f))[1]	5,463	11,212
Dividends payable (Note 29 (f))	–	11,452
	85,836	102,632
Non-current		
Other payables to related parties (Note 29 (f))	24,129	–
Other payables to third parties	–	427
	24,129	427

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

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

25 EARNINGS PER SHARE

Basic and diluted

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

	2008 US$000	2007 US$000
Profit attributable to equity holders of the company	90,934	86,364
Weighted average number of ordinary shares in issue (thousand)	111,074	100,000
Basic and diluted earnings per share (expressed in US$ per share)	0.82	0.86

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share (Note 19). For the purposes of the calculation of earnings per share in each of the years above, the number of shares was increased using a conversion of 10:1.

26 BUSINESS COMBINATIONS

Year ended 31 December 2007

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

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

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

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

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

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

- In December 2007, the Group disposed of its 75% shareholding in Amalfico Holdings Limited to its shareholders for a total amount of US$2,259 thousand (Note 29 (i)). However, since Amalfico Holdings Limited had cash and cash equivalents amounting to US$3,681 thousand at the date of disposal, it resulted to a net cash outflow of US$1,422 thousand. From the disposal, the Group has made a gain of US$1,855 thousand (Note 7). The minority interest disposed of amounted to US$325 thousand. Consequently, the Group has also disposed of Ural Wagonrepair Company ZAO, in which Amalfico Holdings Limited held 97% of the share capital and the Group had an indirect shareholding of 73%.

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

	Carrying amount US$000
Property, plant and equipment	25,109
Trade and other receivables	7,879
Inventories	805
Cash and cash equivalents	3,681
Borrowings	(35,032)
Trade and other payables	(1,690)
Current tax liabilities	(23)
Minority interest disposed of	(325)
Carrying amount of net assets disposed of	404

27 CONTINGENCIES

Operating environment

The Group and its subsidiaries operate mainly in the Russian Federation and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. There has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies.

The commodities market was also impacted by the latest events on the financial markets. A number of measures have been undertaken to support the Russian financial markets.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation.

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

Estonia represents a well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

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

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

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

Impact of the ongoing global financial and economic crisis

The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing global financial and economic crisis is proving to be difficult to anticipate or completely guard against.

The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and our assessment of the impairment of non-financial assets. To the extent that information is available management have properly reflected revised estimates of expected future cash flows in their impairment assessments, however management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Tax legislation in Russia

Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny.

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

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

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

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

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumptions that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Based on the results of tax inspection for 2004 and preliminary results of tax inspections for 2006 and 2007 of OJSC New Forwarding Company (Company's subsidiary) tax authorities' could claim additional VAT in the amount of US$5,227 thousand and US$19,662 thousand respectively. This claim is based on the tax authorities interpretation of legislation and suggests that the company's activities related to export transactions do not qualify as zero rated for VAT purposes. No similar claim has been raised in the course of tax inspection for 2005 which was completed earlier. The subsidiary has received a positive decision from Court in respect of the 2004 tax claim. Based on results of the first hearing, management believes that it will be able to defend its position and currently is in the process of discussing this matter with the tax authorities. No provision for this matter has been recorded in these financial statements. Total sales to which the company applies 0% VAT for 2008 which is still open for tax inspection amount to US$116,447 thousand. Currently there is no indication that similar claims will be raised by tax authorities in respect of this period. The company's management believes that its interpretation of the relevant legislation is appropriate and the company's tax, currency legislation and customs positions will be sustained. Accordingly, as of 31 December 2007 and 2008 management believes that no tax liability has to be accrued in the financial statements.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2008 (Note 22).

Insurance policies

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

Environmental matters

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

Legal proceedings

During the year ended 31 December 2008, the Group was involved as a claimant in a number of court proceedings.

AS Eesti Raudtee (Estonian railway) has an outstanding claim against AS Spacecom (Company's subsidiary) regarding unpaid invoices for the railway infrastructure access fee for the period from 31 May 2004 to 31 May 2005 in the total amount of EEK 119,497 thousand (US$10,760 thousand) and a late payment interest of EEK 122,368 thousand (US$11,019). The whole amount of the expenses claimed by AS Eesti Raudtee has already been accounted for in the books of AS Spacecom and the consolidated financial statements.

27 CONTINGENCIES (continued)

AS Spacecom has a counterclaim against AS Eesti Raudtee regarding the compensation for damage caused by abuse of dominant position through unfair pricing. This counterclaim is to set-off the claim by AS Eesti Raudtee above. Both cases are pending in court. The management believes that the outcome of the litigation will be favourable to the Company.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2008 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

28 COMMITMENTS

a) Capital commitments

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

	2008 US$000	2007 US$000
Property, plant and equipment	**10,760**	64,549

b) Operating lease commitments – Group as lessee

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

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease terms are between two months and two years. The lease expenditure charged to the income statement during the years is disclosed in Note 6.

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

	2008 US$000	2007 US$000
Not later than 1 year	**17,500**	62,984
Later than 1 year not later than 5 years	**11,400**	48,762
	28,900	111,746

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

c) Operating lease commitments – Group as lessor

	2008 US$000	2007 US$000
Not later than 1 year	**55,086**	52,136
Later than 1 year not later than 5 years	**18,699**	11,426
	73,785	63,562

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

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2008 (2007: US$nil).

29 RELATED PARTY TRANSACTIONS

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 19.55% (including the holding of GDRs of the Company) of the Company's shares. The remaining 30.35% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Group is Leverret Holding Limited.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The following transactions were carried out with related parties:

a) Sales of goods and services

	2008 US$000	2007 US$000
Sales of services:		
Associate	58	3
Other related parties	91,783	156,020
	91,841	156,023

Transactions with 'other related parties' amounting to US$28,295 thousand were carried with entities under common control (2007: US$123,879 thousand) and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

b) Purchases of goods and services

	2008 US$000	2007 US$000
Purchases of services:		
Associate	6	147
Other related parties	33,468	57,288
	33,474	57,435

Transactions with 'other related parties' amounting to US$10,116 thousand were carried with entities under common control (2007: US$9,176 thousand) and the remaining transactions with "other related parties" were carried out with entities under common significant influence.

c) Additions and disposals of property, plant and equipment

	2008 US$000	2007 US$000
Additions:		
Other related parties	10,446	11,280
Disposals:		
Other related parties	123	39

Additions from 'other related parties' amounting to US$3,885 thousand were obtained from entities under common control (2007: US$8,860 thousand) and the remaining additions from "other related parties" were obtained from entities under common significant influence.
All disposal transactions were carried out with "entities under common control".

29 RELATED PARTY TRANSACTIONS (continued)

d) Interest income and expenses

	2008 US$000	2007 US$000
Interest income (Note 9):		
Loans to:		
Other related parties	**9**	40
Finance leases:		
Other related parties	**86**	1,523
	95	1,563
Interest expense (Note 9):		
Entity with significant influence over the Group	**–**	(4)
The parent	**(5,186)**	(8,098)
Other related parties	**–**	(292)
	(5,186)	(8,394)

Interest income on loans to 'other related parties' was received from entities under common control. Interest income on finance leases was received from entities under common significant influence.

e) Directors and key management compensation

	2008 US$000	2007 US$000
Directors' fees	**185**	–
Emoluments in their executive capacity	**120**	–
Key management salaries and other short-term employee benefits	**4,700**	8,049
	5,005	8,049

The above include bonuses amounting to US$2,010 thousand for the year ended 31 December 2008 (2007: US$5,487 thousand).

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

	2008 US$000	2007 US$000
Trade receivable from related parties (Note 16):		
Other related parties	**8,710**	7,880
	8,710	7,880
Other receivables from related parties (Note 16):		
Other related parties	**2,132**	7,792
Associate	**3**	3
	2,135	7,795
Prepayments to related parties (Note 16):		
Other related parties	**1,932**	1,076
Finance lease receivables (Note 16):		
Current:		
Other related parties	**–**	9,177
Non-current:		
Other related parties	**–**	9,589
	–	18,766

	2008 US$000	2007 US$000
Trade payables to related parties (Note 24):		
Associate	–	94
Other related parties	1,650	9,757
	1,650	9,851
Other payables to related parties (Note 24):		
Current:		
The parent	51,894	–
Key management personnel	8	–
Other related party	30	152
	51,932	152
Non-current:		
The parent	24,129	–
	76,061	152
Dividends payable	–	11,452
Advances from related parties (Note 24):		
Other related parties	5,463	11,212

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

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

g) Loans to related parties

	2008 US$000	2007 US$000
Other related parties (Note 16):		
Beginning of year	3,363	846
Loans advanced during year	–	3,184
Loans repayments received	(3,128)	(830)
Interest charged	9	218
Interest received	(185)	(80)
Foreign exchange loss	(59)	25
End of year	–	3,363

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

The loan that was repaid in January 2008 carried interest at 12.5%.

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

29 RELATED PARTY TRANSACTIONS (continued)

h) Loans from related parties

	2008 US$000	2007 US$000
The parent:		
Beginning of year	78,726	101,875
Loans advanced during the year	7,000	15,079
Loans repaid during the year	(63,943)	(31,786)
Interest charged	5,233	7,904
Interest repaid	(5,488)	(4,654)
Foreign exchange (loss)/gain	(3,149)	(1,336)
Balances of the parent with parties no longer part of the Group	–	(8,356)
End of year	18,379	78,726

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

The balance at the year end carries an average interest of 10.43% and is payable on June 2012.

	2008 US$000	2007 US$000
Entity with significant influence over the Group:		
Beginning of year	–	–
Loans advanced during the year	–	3,218
Loans repaid during the year	–	–
Interest charged	–	4
Interest repaid	–	–
Balances of the entity with significant influence over the Group with parties no longer part of the Group	–	(3,222)
End of year	–	–

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

	2008 US$000	2007 US$000
Other related parties:		
Beginning of year	195	9,600
Loans advanced during the year	–	4,880
Loans repaid during the year	–	(10,409)
Interest charged	–	732
Interest repaid	(195)	(5)
Balances of the parent with parties no longer part of the Group	–	(4,603)
End of year	–	195

The loans were repaid in 2007 and carried interest at 12% and 12.5%

The above loan from "other related parties" arise from transactions with entities under common control.

	2008 US$000	2007 US$000
Total loans:		
Beginning of year	**78,921**	111,475
Loans advanced during the year	**7,000**	23,177
Loans repaid during the year	**(63,943)**	(42,195)
Interest charged	**5,233**	8,640
Interest repaid	**(5,683)**	(4,659)
Foreign exchange loss	**(3,149)**	(1,336)
Balances of the parent with parties no longer part of the Group	**–**	(16,181)
End of year	**18,379**	78,921
Current	**2,817**	5,554
Non-current	**15,562**	73,367
End of year	**18,379**	78,921

i) Other transactions with related parties

Year ended 31 December 2008:

- In December 2008 the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000,000 and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000,000 (Note 30). The total consideration and interest accrued shall be paid in instalments until November 2010 according to the following schedule:

Term	US$000
On or before 10 January 2009	30,000
On or before 1 May 2009	10,000
On or before 1 November 2009	13,000
On or before 1 May 2010	13,000
On or before 1 November 2010	13,000
Total consideration	79,000

- As at 31 December 2008, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 22):

	US$000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	50,389
The parent	36,382
	86,771
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	25,896
The parent and other related parties	5,361
The parent	16,198
Other related parties	2,039
	49,494

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

29 RELATED PARTY TRANSACTIONS (continued)

Year ended 31 December 2007:

- In December 2007, the Group disposed of its 75% shareholding in Amalfico Holdings Limited to its shareholders for a total amount of US$2,259 thousand (Note 26).
- In May 2007, the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company (Note 30).
- As at 31 December 2007, the Company had capital commitments for the purchase of property, plant and equipment from other related party for the total amount of US$3,251 thousand (Note 28).
- In September 2007, the Group signed a property pledge agreement with OAO "Swedbank", under which property, plant and equipment of the Group with carrying net book value of US$14,520 thousand were pledged as a collateral under non-current loan agreement between OAO "Swedbank" and a related party. The Group estimated the value of this pledge at US$427 thousand (Note 22).
- As at 31 December 2007, borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 22):

	2007 US$000
Borrowings guaranteed by:	
The parent and the entity with significant influence over the Group	30,470
The parent	25,714
	56,184
Finance lease and sale and leaseback contracts guaranteed by:	
The parent and the entity with significant influence over the Group	47,356
The parent and other related parties	59,081
The parent	20,510
Other related parties	10,066
	137,013

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

j) Operating lease commitments – Group as lessee

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

	2008 US$000	2007 US$000
Not later than 1 year	**12,984**	20,721
Later than 1 year and not later than 5 years	**11,205**	26,424
	24,189	47,145

k) Operating lease commitments – Group as lessor

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

	2008 US$000	2007 US$000
Not later than one year	**11,949**	13,954

30 COMMON CONTROL TRANSACTION

Year ended 31 December 2008

In December 2008, the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000 thousand and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000 thousand (Note 29(i)). Both companies are engaged in operating lease of rolling stock and AS Spacecom is also engaged in railway freight forwarding.

In accordance with the accounting policies of the Group, the liability for the consideration payable for the acquisition of AS Spacecom was recognised at the fair value of US$61,660 and AS Intopex Trans at the fair value of US$14,363 by discounting future payments to be made using the weighted average cost of capital.

The acquisition of 65% of AS Intopex Trans and 61% of AS Spacecom has been accounted for as a common control transaction using the predecessor basis (Note 2). The carrying value of their net assets as of 1 October 2004 and 14 November 2006 respectively, were used to account for the common control transaction reserve, since these are the dates common control has been established.

a) AS Spacecom

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

The acquired business contributed revenues of US$40,679 thousand and net profit of US$12,609 thousand in 2008, revenues of US$51,562 thousand and net profit of US$10,641 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

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

	01 October 2004	01 January 2007	31 December 2007	31 March 2008*	31 December 2008
	US$000	US$000	US$000	US$000	US$000
Cash and cash equivalents	4,846	158	1,905	306	2,620
Property, plant and equipment	109,920	132,741	138,335	137,730	122,822
Investments in associates	1,199	991	399	1,075	926
Other non-current assets	2,045	–	–		–
Trade and other receivables	7,134	15,781	9,013	15,894	8,378
Trade and other payables	(4,710)	(16,672)	(22,190)	(25,785)	(12,827)
Borrowings	(101,857)	(95,994)	(75,788)	(71,628)	(60,557)
Deferred gains	(8,422)	(4,552)	(3,046)	(2,556)	(1,324)
Current income tax liabilities	(115)	(344)	–		–
less Minority interest in net assets acquired	(4,920)	(15,733)	(23,828)	(49,532)	(23,415)
Carrying value of net assets acquired	5,120	16,376	24,800	5,504	36,623

*The assets and liabilities of AS Spacecom as of 31 March 2008, when an additional 10% shareholding was acquired by the parent entity from the minority shareholders of AS Spacecom, which was subsequently transferred to the Company as part of the common control transaction.

30 COMMON CONTROL TRANSACTION (continued)

(b) AS Intopex Trans

On acquisition of AS Intopex Trans by Transportation Investments Holding Limited on 14 November 2006, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the purchase method of accounting.

The acquired business contributed revenues of US$7,850 thousand and net profit of US$2,365 thousand in 2008 and revenues of US$4,146 thousand and net profit of US$4,016 thousand in 2007 These amounts have been calculated using the Group's accounting policies.

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

	14 November 2006 US$'000	1 January 2007 US$'000	31 December 2007 US$'000	31 December 2008 US$'000
Cash and cash equivalents	133	52	321	519
Property, plant and equipment	14,949	22,344	28,379	26,535
Trade and other receivables	176	1,667	2,040	1,895
Trade and other payables	(2,424)	(391)	(2,547)	(792)
Borrowings	(8,383)	(18,682)	(617)	(617)
Deferred tax liabilities	(617)	(617)	(19,968)	(19,228)
Current income tax liabilities		(1)	–	–
less Minority interest in net assets acquired	(1,342)	(1,530)	(2,663)	(2,909)
Carrying value of net assets acquired	2,492	2,842	4,945	5,403

Year ended 31 December 2007

In May 2007 the Company acquired from its shareholders their shareholding in Sevtekhnotrans OOO, a railway transportation company (Note 29(i)). 28.75% of share capital of Sevtekhnotrans OOO was acquired for a total consideration of US$40,250 thousand. The remaining share capital (71.25%) with value of US$99,750 thousand was transferred at no consideration as capital contribution. The acquisition of Sevtekhnotrans OOO has been accounted as a common control transaction using the predecessor basis. The carrying value of its net assets as of 1 October 2004 was used to account for the common control transaction reserve, since this is the date as of common control has been established.

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

The acquired business contributed revenues of US$70,434 thousand and net profit of US$24,084 thousand in 2007, revenues of US$72,562 thousand and net profit of US$30,842 thousand in 2006 and revenues of US$121,860 thousand and net profit of US$11,096 thousand in 2005. These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of Sevtekhnotrans OOO were as follows:

	01 October 2004 US$000	31 December 2004 US$000	31 December 2005 US$000	31 December 2006 US$000
Cash and cash equivalents	34,313	35,522	13,036	6,182
Property, plant and equipment	212,711	225,301	250,200	278,940
Investments in joint ventures	32	32		–
Inventories	381	278	2,886	255
Trade and other receivables	46,039	96,633	80,247	73,749
Trade and other payables	(11,594)	(6,825)	(10,484)	(3,207)
Borrowings	(234,189)	(285,174)	(260,543)	(234,842)
Deferred gains	(1,101)	(1,159)	(752)	(422)
Deferred tax liabilities	(2,212)	(2,328)	(3,657)	(11,459)
Current income tax liabilities		(913)	(855)	(802)
Carrying value of net assets acquired	44,380	61,367	70,078	108,394

31 EVENTS AFTER THE BALANCE SHEET DATE

Devaluation of the Russian Rouble

As a result of global volatility in financial and commodity markets, amongst other factors, there has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies. As of 10 April 2009 the Russian Rouble has depreciated against the US Dollar from 29.3804 to 33.5334 Russian Roubles (official exchange rate of the Central Bank of Russia) (14% devaluation). The impact of a reasonable possible change in the Russian Rouble to US Dollar exchange rate of 33% on the Group's post –tax profit for the year with all other variables remaining unchanged is disclosed in Note 3. Management is closely monitoring and evaluating the impact of the changes in foreign exchange rates. Management cannot currently estimate the effect of the changes in foreign exchange rates on the Group's presentation currency.

Other events

The Group settled following obligations (in each case no early settlement charge was imposed nor discount provided):

– US$3,172 thousand as early repayment of the principal and accrued interest under finance lease agreements with OOO "UniCredit Leasing" and OOO "BSGV-Leasing";

– US$30,881 thousand as early repayment of the principal and accrued interest under long-term loan agreement with Cargill Financial Services International, Inc.;

– US$3,586 thousand under loan agreement with International Finance Corporation;

– US$11,062 thousand under loan agreement with ZAO UniCredit Bank.

The Group received the following borrowings:

– RUB1,000 million (US$34,036 thousand) under the credit line agreement denominated in Russian rubles with OAO "Sberbank" with maturity in January 2011;

– RUB88 million (US$2,995 thousand) under the credit line agreement denominated in Russian rubles with ZAO "Raiffeisenbank";

– RUB35 million (US$1,191 thousand) under revolving credit line denominated in Russian rubles with ZAO "Raiffeisenbank";

– RUB200 million (US$6,807 thousand) of RUB350 million (US$11,913 thousand) contracted by the Group under a short-term loan agreement denominated in Russian rubles with ZAO UniCredit Bank, secured by a pledge of rolling stock with the total pledge value of US$16,692 thousand.

In March 2009 the Group's subsidiary filed an appeal for the decision of tax inspection based on the results of tax inspection for 2006 and 2007, where tax authorities' claimed additional VAT in the amount of US$19,662 thousand (Note 27).

On 5 February 2009 the Board of Directors of the Company entered into additional agreements to the Share Purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle the instalment ahead of schedule and the Parent entity agreed to offer a discount on the total purchase price should such early settlement be made by the Company.

The Company has settled the instalment which was due no later than 1 May 2009 on 11 February 2009 and as a result received a discount from the Parent entity on the total purchase price of AS Spacecom and AS Intopex Trans of US$195 thousand and US$22 thousand respectively.

The Group received the total of US$31,869 thousand as settlements of accounts receivable that were classified as past due as of 31 December 2008.

The Group has received 50 gondola cars and 14 platforms for a total amount of US$5,027 thousand, which were contracted for and included in prepayments for property, plant and equipment as at 31 December 2008.

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

Independent Auditors' Report on pages 10 to 11.

Notes:

Appendix 2: Directors report and parent company financial statements

for the year ended 31 December 2008

Contents

DIRECTORS REPORT AND PARENT COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Board of Directors and other officers

Board of Directors

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

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

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

Mr. Sergey Maltsev (appointed 21 March 2008)
Executive Director
Chief Executive Officer

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

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

Mr. Konstantin Shirokov (appointed 19 March 2008)
Executive Director

Mr. Michael Thomaides (resigned 21 March 2008)
Executive Director

Board support
The Company Secretary is available to advise all Directors and ensure that Board procedures are complied with. The position is appointed and can be removed by the Board.

A procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.

Company Secretary
Ms. Elia Nicolaou
Maria House
5th Floor
1 Avlonos Street
CY-1075 Nicosia
Cyprus

Registered office
20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements for the year ended 31 December 2008. The Company 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 Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

Change of name and conversion into a public company
On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment PLC and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The change of name was approved by the Registrar of Companies on 15 April 2008,

On 19 March 2008, the Company adopted a written resolution by which the Articles of Association of the Company were replaced with the amended Articles of Association of a public limited liability company in accordance with the provisions of the Companies Law, Cap 113.

Review of developments, position and performance of the Company's business
The net profit of the Company for the year ended 31 December 2008 was US$37,885,638 (2007: US$26,774,422).
On 31 December 2008 the total assets of the Company were US$441,351,919 (2007: US$191,665,851) and net assets were US$364,616,031 (2007: US$179,731,077). The financial position, development and performance of the Company as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties
The Company's financial risk management and critical accounting estimates and judgements are disclosed in Notes 3 and 4 to the financial statements.

The Company's contingencies are disclosed in Note 22 to the financial statements.

The Board has adopted a formal process to identify, evaluate and manage significant risks faced by the Company.

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

The Group continued to diversify geographically into other CIS markets, establishing a subsidiary company to service the Ukrainian market and acquiring two Estonian subsidiaries engaged in the operating lease of rolling stock primarily to markets in Russia and Kazakhstan.

Results
The Company's results for the year are set out on page 11. The Board of Directors recommended the payment of a dividend as detailed below and the remaining net profit for the year is retained.

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

The Company is a holding company and thus its ability to pay dividends depends on the ability of its subsidiaries to pay dividends to the Company in accordance with relevant legislation and contractual restrictions. The payment of such dividends by its subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. The maximum dividend payable by the Company's subsidiaries is restricted to the total accumulated retained earnings of the relevant subsidiary, determined according to the law.

During 2008, the Board of Directors declared and the shareholders approved the payment of an interim dividend in respect of the year ended 31 December 2008 of US$0.89 per share, amounting to a total dividend of US$8,900,000. The dividend was paid before 30 April 2008 (Note 12).

Report of the Board of Directors (continued)

Share capital

On 19 March 2008, the Company changed its authorized and issued share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares to the public.

Members of the Board of Directors

The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1.

Mr. Thomaides resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors in 2008 amounted to US$305,224 (2007: nil).

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 23 to the financial statements.

Branches

The Company did not operate through any branches during the year.

Treasury shares

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the accounts based on the fact that, after making enquiries and following a review of the Company's budget for 2009, including cash flows and borrowing facilities, the Directors consider that the Company 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

Alexander Eliseev
Chairman of the Board of Directors
Limassol
10 April 2009

Corporate governance report

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance which aims to guarantee that the interests of all company shareholders are given due consideration. The Code is based on principles recommended by the UK Combined Code on Corporate Governance issued in July 2003. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

Board of Directors

The Board leads the process for new Board members' appointments and makes recommendations to shareholders. In accordance with the terms of reference of the Board of Directors, all Directors are subject to election by shareholders at the first Annual General Meeting after their appointment, and to re-election at intervals of no more than three years. Any term beyond six years for a Non-Executive Director is subject to particularly rigorous review, and takes into account the need for progressive refreshing of the Board.

The members of the Board of Directors at 31 December 2008 and at the date of this report are shown on page 1.

Mr. Thomaides, who held office on 1 January 2008, resigned on 21 March 2008. The Board currently has seven members. Mr. Shirokov was appointed on 19 March 2008. All of the other current members of the Board of Directors were appointed on 21 March 2008.

The Role of the Board

The Board of Directors' role is to provide entrepreneurial leadership to the Company. The Board of Directors sets the corporate strategic objectives, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board of Directors sets the Company's values and standards and ensures that its obligations to its shareholders are understood and met. The Board of Directors maintains a sound system of internal controls and enterprise risk management to safeguard its shareholders' investment and the Company's assets.

Board Performance

The Board held 16 meetings in 2008. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	10
Michael Zampelas	15
Hans Durrer	15
Sergey Maltsev	6
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

Evaluation of the Performance of the Board

The operation of the Board of Directors, its Committees and individual Directors is subject to annual evaluation. The evaluation of the Board of Directors and individual Directors' performance is made through self-assessment, cross-assessment or by an external third party. The Non-Executive Directors, led by the Senior Independent Director, are responsible for performance evaluation of the Chairman of the Board of Directors.

The Board Committees

The Board has established three committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. A brief description of the terms of reference of the committees is set out below.

Audit Committee

The Audit Committee comprises two Directors, one of whom is considered to be independent, and meets at least four times each year. The Audit Committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The audit committee is responsible for considering, amongst other matters:

- the integrity of the Company's financial statements, including its annual and interim accounts, and 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.

The report of the Audit Committee can be found on page 5.

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.

The report of the Remuneration Committee can be found on page 7.

Board and Management Remuneration
Non-executive directors serve on the Board pursuant to the letters of appointment which are subject to approval by the shareholders at the Annual General Meeting. Such letters of appointment specify the terms of appointment and the remuneration of non-executive directors. Appointments are for one year.

Levels of remuneration for Non-Executive Directors reflect the time commitment, responsibilities of the role and membership of the respective committees of the Board. Directors are also reimbursed for expenses associated with discharge of their duties.

Refer to Note 21 of the Financial Statements for detail of remuneration paid to the members of key management.

AUDIT COMMITTEE REPORT

Role of the Audit Committee
The Audit Committee assists the Board of Directors in discharging its corporate governance responsibilities in relation to:
- the reliability and appropriateness of disclosures in the financial statements and external financial communication;
- the maintenance of an effective system of internal controls including financial, operational and compliance controls and a risk management system. The Audit Committee ensures, by means of suitable steps and appropriate information, that proper and satisfactory internal control and risk management systems are in place to identify and control business risks and that the Company's business, and that of its subsidiaries, is conducted in a proper and economically sound manner;
- preparation of recommendations to the shareholders for their approval at the General Meeting in relation to the appointment, reappointment and removal of the external auditor;
- approval of the remuneration and terms of engagement of the external auditor in respect of audit services provided;
- the audit process, including monitoring and review of the external auditor's performance, independence and objectivity; and
- development and implementation of the policy on non-audit services provided by the external auditor;
- monitoring compliance with laws and regulations and standards of corporate governance.

The Audit Committee assists the Board of Directors in its oversight of the performance and leadership of the internal audit activity.

Where the Audit Committee's monitoring and review activities reveal cause for concern or scope for improvement, it makes recommendations to the Board of Directors on action needed to address the issue or to make improvements.

The Composition of the Audit Committee
Since March 2008 the audit committee comprises two directors, one of whom is considered to be independent, and meets at least four times each year. The audit committee is chaired by Mr. Zampelas and Mrs. Nicolaou is the other member. The composition of the Audit Committee is not fully compliant with the Combined Code, since the members of the Committee are not drawn wholly from the Board's independent non-executive directors.

Report of the activities of the Audit Committee in 2008

The Audit Committee met 19 times in 2008, including two meetings with the management of the Group and four meetings which were attended by the external auditors of the Company.

The principal issues which were considered during 2008 were:

- review of the external auditor's letter to the Audit Committee following their full year audit for 2007;
- review of the financial statements of the Company and consolidated financial statements of the Group for 2007 and recommended approval of the same to the Board of Directors;
- review of the Interim Financial results for 6 months of 2008 and recommended approval to the Board of Directors;
- review of the terms of appointment of the external auditor of the Company for the year 2008 and recommended re-appointment to the Board of Directors who in turn proposed the re-appointment of the external auditors to the Annual General Meeting of shareholders of the Company.
- oversight of the reporting process, review of the audit plan and closure process;
- review of the internal audit process and making enquiries and recommendations for the improvement of this function in 2009.

Non-audit services

It is the Company's policy not to engage the external auditor for services which may cause conflict of interest and affect their independence. According to the External Auditor Independence Policy, adopted by the Company in 2008, the External Auditor shall not provide prohibited services. In compliance with generally accepted principles, prohibited services include services where the External Auditor:

- participates in activities that are normally undertaken by management of the Company;
- is remunerated through success fees, contingent fees or commission;
- acts in an advocacy role for the Company;
- may be required to audit its own work.

In particular, the following services are determined as prohibited services:

- book-keeping or providing other services in relation to accounting records and financial statements;
- designing and implementing financial information systems or financial controls;
- providing valuation services, appraisals or fairness opinions;
- providing internal audit sourcing services in regard to financial processes and controls;
- seconding employees to the Company where the secondee acts as a Company officer or employee, or performs any decision-making, supervisory or ongoing monitoring function;
- providing human resources and recruitment services;
- providing actuarial services;
- providing management and directorship functions;
- providing legal services;
- providing broker-dealer, investment advisor or investment banking services;
- providing expert services unrelated to the external audit (e.g., advocacy in litigation proceedings, other than tax matters).

Evaluation of the operations of the Audit Committee and individual members

The operations of the Audit Committee and individual Directors shall be subject to annual evaluation. The evaluation of the Audit Committee and individual Directors' performance is made through self-assessment or by an external third party. The results of annual performance evaluation are communicated to the Chairman of the Board of Directors.

External Auditor

PricewaterhouseCoopers continues to serve as the Company's external auditor for the fifth consecutive year, PricewaterhouseCoopers' foreign offices also act as the external auditors of all the subsidiaries of the Company. According to internal procedures, the Company shall require the External Auditor to rotate the senior audit partner for the Company every seven years with suitable succession planning to ensure consistency.

REMUNERATION COMMITTEE REPORT

Since March 2008, the Remuneration Committee has comprised three directors. The Remuneration Committee is chaired by Dr. Durrer; Mr. Zampelas and Mr. Eliseev are the other members.

The Remuneration Committee is a committee of the Board of Directors which assists the Board of Directors in discharging its responsibilities in relation to remuneration of all Executive Directors and the Chairman of the Board of Directors. The main objective of the Remuneration Committee is to determine the framework and policy for the remuneration of the Executive Directors, the Chairman of the Board of Directors and senior executives, and the specific remuneration of each Executive Director and the Chairman of the Board and any compensation payments.

The remuneration committee met twice in 2008 to discuss its roles and responsibilities and to consider the appropriateness of the level of remuneration of the executive directors of the Company.

Remuneration information for 2008

The following section contains detailed information and commentary on the Executive Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2008.

It should be noted that no executive director currently receives any long-term incentives, pension benefits or share interests.

Remuneration information for 2008

The following section contains detailed information and commentary on the Directors' annual remuneration, long-term incentives, pension benefits and share interests in respect of 2008.

It should be noted that no director currently receives any long-term incentives, pension benefits or share interests.

The Non-Executive Directors receive fees from Globaltrans Investment PLC. No other remuneration is given in respect of their non-executive duties, such as annual incentives, share-based incentives or pension benefits. The level of their fees reflects their commitment and contribution to the Company.

Directors' remuneration

The remuneration of Directors who served during 2008 was as follows:

	Salary and/or fees US$000	**2008 Total US$000**	2007 Total US$000
Alexander Eliseev	–	**–**	–
Michael Zampelas	72	**72**	–
Hans Durrer	112	**112**	–
Sergey Maltsev	–	**–**	–
Elia Nicolaou	2	**2**	–
Konstantin Shirokov	–	**–**	–
Mikhail Loganov	120	**120**	–
Michael Thomaides	–	**–**	–

Directors' interests

The interests in the share capital of Globaltrans Investment PLC and its group companies, both direct and indirect, of those who were Directors as at 31 December 2008 is shown below:

	Type of holding	**Shares/Global Depositary receipts held at 31 December 2008[1]**	Shares held at 31 December 2007[2]
Alexander Eliseev	Through shareholding in Envesta Investments Ltd	11,201,262	1,470,000
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456	1,530,000
Hans Durrer	GDRs of Globaltrans Investment PLC	100,000	–

[1]Total number of issued shares of the Company as at 31 December 2008 was 116,959,064.
[2]Total number of issued shares of the Company as at 31 December 2007 was 10,000,000.

The Report has been approved by the Board on 10 April 2009 and signed on behalf of the Board by Hans Durrer.

Directors' responsibility

The Company's Board of Directors is responsible for the preparation and fair presentation of these 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 Director's confirms to the best of his or her knowledge that the financial statements (presented on pages 11 to 32) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings.

By order of the Board

Sergey Maltsev
Chief Executive Director

Mikhail Loganov
Managing Director

Independent Auditors’ Report

To the Members of Globaltrans Investment PLC

Report on the Financial Statements

We have audited the parent company financial statements of Globaltrans Investment PLC (the “Company”) on pages 11 to 32, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2008.

Board of Directors’ Responsibility for the Financial Statements

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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Globaltrans Investment PLC (previously Globaltrans Investment Limited) as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company’s financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 2 to 8 is consistent with the financial statements.

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

PricewaterhouseCoopers Limited

Chartered Accountants
Limassol, 10 April 2009

Income statement

for the year ended 31 December 2008

	Note	2008 US$	2007 US$
Sales	5	15,633,231	32,978,658
Cost of sales		–	(2,543,946)
Gross profit		**15,633,231**	**30,434,712**
Selling and marketing costs		(120,338)	–
Other losses	6	(48,588)	–
Administrative expenses		(10,399,597)	(681,285)
Operating profit		**5,064,708**	**29,753,427**
Finance costs		32,041,912	(2,427,728)
Finance income		1,472,244	1,007,287
Finance income/(costs) – net	9	33,514,156	(1,420,441)
Profit before tax		**38,578,864**	**28,332,986**
Tax	10	(693,226)	(1,558,564)
Profit for the year		**37,885,638**	26,774,422

The notes on pages 15 to 32 are an integral part of these financial statements.

Balance sheet

at 31 December 2008

	Note	2008 US$	2007 US$
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	*14*	299,113,704	178,888,403
Property, plant and equipment	*13*	10,826	–
Receivables	*17*	53,700,000	–
Total non-current assets		**352,824,530**	**178,888,403**
Current assets			
Trade and other receivables	*17*	954,330	10,912,219
Cash and cash equivalents	*18*	87,573,059	1,865,229
Total current assets		**88,527,389**	**12,777,448**
TOTAL ASSETS		**441,351,919**	**191,665,851**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	*19*	11,695,906	10,000,000
Share premium	*19*	279,144,406	61,560,000
Capital contribution		90,000,000	90,000,000
Translation reserve		(45,424,896)	17,956,100
Retained earnings		29,200,615	214,977
Total equity		**364,616,031**	**179,731,077**
Non-current liabilities			
Trade and other payables	*20*	24,129,342	–
Current liabilities			
Current income tax liabilities		32,067	–
Trade and other payables	*20*	52,574,479	11,934,774
Total current liabilities		**52,606,546**	**11,934,774**
TOTAL LIABILITIES		**76,735,888**	**11,934,774**
TOTAL EQUITY AND LIABILITIES		**441,351,919**	**191,665,851**

On 10 April 2009 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Maltsev
Director

Mikhail Loganov
Director

The notes on pages 15 to 32 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2008

	Note	Share capital[1] US$	Share premium[1] US$	Translation reserve US$	Capital contribution[2] US$	Retained earnings[3] US$	Total US$
Balance at 1 January 2007		**10,000,000**	**61,560,000**	**–**	**4,325,000**	**940,555**	**76,825,555**
Currency translation differences		–	–	17,956,100	–	–	17,956,100
Net income recognised directly in equity		–	–	17,956,100	–	–	17,956,100
Profit for the year		–	–	–	–	26,774,422	26,774,422
Total recognised income for 2007		**–**	**–**	**17,956,100**	**–**	**26,774,422**	**44,730,522**
Common control transaction		–	–	–	99,750,000	–	99,750,000
Dividend relating to 2006	*12*	–	–	–	–	(1,200,000)	(1,200,000)
Dividend relating to 2007	*12*	–	–	–	(14,075,000)	(26,300,000)	(40,375,000)
Balance at 31 December 2007/ 1 January 2008		**10,000,000**	**61,560,000**	**17,956,100**	**90,000,000**	**214,977**	**179,731,077**
Currency translation differences		–	–	(63,380,996)	–		(63,380,996)
Net income recognised directly in equity		**–**	**–**	**(63,380,996)**	**–**		**(63,380,996)**
Profit for the year		–	–		–	37,885,638	37,885,638
Total recognised income for 2008		**–**	**–**	**(63,380,996)**	**–**	**37,885,638**	**(25,495,358)**
Issue of shares		1,695,906	223,011,692	–	–	–	224,707,598
Incremental costs directly attributable to the issue of new shares	*19*	–	(5,427,286)	–	–	–	(5,427,286)
Dividend relating to 2008	*12*	–	–	–	–	(8,900,000)	(8,900,000)
Balance at 31 December 2008		**11,695,906**	**279,144,406**	**(45,424,896)**	**90,000,000**	**29,200,615**	**364,616,031**

[1]In May 2008, the Company has issued 16,959,064 new ordinary shares with a par value of US$0.10 as fully paid at a price of US$13.25, including a premium of US$13.15 per share.
[2]In May 2007, the shareholders of the Company transferred their shareholding in OOO Sevtekhnotrans to the Company. 28.75% of shares was sold for a total consideration of US$40,250 thousand and the remaining shares (71.25%) with a value of US$99,750 thousand were transferred for no consideration as capital contribution. The acquisition of OOO Sevtekhnotrans has been accounted as a common control transaction using the predecessor basis. In December 2007, the Company declared repayments of US$14,075 thousand from the capital contribution reserve as dividend distribution to the shareholders (Note 12). This reserve is distributable.
[3]Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

The notes on pages 15 to 32 are an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2008

	Note	2008 US$	2007 US$
Cash flows from operating activities			
Profit before tax		38,578,864	28,332,986
Adjustments for:			
Depreciation of property, plant and equipment	13	1,768	–
Interest income	9	(1,472,244)	(1,007,287)
Interest expense	9	383	9,318
Loss on disposal of subsidiaries		–	213,654
Exchange (gains)/losses on financing activities	11	(32,042,295)	2,418,410
Operating cash flows before working capital changes		**5,066,476**	**29,967,081**
Changes in working capital:			
Trade and other receivables		6,603,432	(7,673,777)
Trade and other payables		85,645	444,671
Net cash used in operations		**11,755,553**	**22,737,975**
Tax paid		(655,349)	(1,558,564)
Net cash generated from operating activities		**11,100,204**	**21,179,411**
Cash flows from investing activities			
Acquisition of subsidiaries	14	–	(40,250,000)
Purchases of property, plant and equipment	13	(14,556)	–
Proceeds from the disposal of subsidiaries		–	2,330,288
Capital contribution to subsidiaries		(76,170,422)	(92,524)
Loans granted to related parties	21	(71,431,257)	(8,690,000)
Loan repayments received from related parties	21	27,520,265	7,336,007
Interest received		1,470,189	1,008,254
Net cash used in investing activities		**(118,625,781)**	**(38,357,975)**
Cash flows from financing activities			
Interest paid		(383)	(9,318)
Proceeds from the issue of shares		209,086,918	–
Dividends paid to Company's shareholders		(19,542,346)	(30,122,500)
Net cash received from/(used in) financing activities		**189,544,189**	**(30,131,818)**
Net increase/(decrease) in cash and cash equivalents		**82,018,612**	**(47,310,382)**
Exchange gains/(losses) on cash and cash equivalents		3,689,218	(49,939)
Cash and cash equivalents at beginning of year	18	1,865,229	49,225,550
Cash and cash equivalents at end of year	18	**87,573,059**	**1,865,229**

The notes on pages 15 to 32 are an integral part of these financial statements.

Notes to the financial statements

1 GENERAL INFORMATION

Country of incorporation
The Company is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113. Its registered office is at 20 Omirou Street, Agios Nicolaos, Limassol, Cyprus.

On 19 March 2008, following a special resolution approved by the shareholders, the name of the Company was changed from Globaltrans Investment Limited to Globaltrans Investment PLC and the Company was converted into a public limited liability company in accordance with the provisions of the Companies Law, Cap. 113.

Approval of the financial statements
These financial statements were authorised for issue by the Board of Directors of the Company on 10 April 2009.

Global Depositary Receipts
During the first half of 2008 the Company has successfully completed an offering of its ordinary shares in the form of Global Depositary Receipts. The Company has raised a total of US$224.7mln in gross proceeds. Global Depositary Receipts representing ordinary shares of the Company are listed on the London Stock Exchange International Main Market.

Principal activities
The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

Consolidated financial statements
The Company also prepared consolidated financial statements, these financial statements should be read in conjunction with the consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation
The 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 requirements of the Cyprus Companies Law, Cap. 113. The financial statements have been prepared under the historical cost convention.

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2008 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting. IFRIC12 "Service Concession Arrangements" has been endorsed by the EU on 26 March 2009 and its mandatory effective date was changed from annual periods beginning on or after 1 January 2008 in IFRIC12 to an entity's first financial year starting after 29 March 2009 in the EU-endorsed version, but with earlier adoption permitted. The Company has prepared these parent's separate financial statements for compliance with the requirements of the Cyprus Income Tax Law.

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group). The consolidated financial statements can be obtained from the Company's registered office.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2008 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company'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.

Adoption of new and revised IFRS
The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective (Items marked with * have not been endorsed by the European Union (EU); the Company will only be able to apply new IFRS and IFRICs when endorsed by the EU):

a) Standards and amendments that are relevant and not yet effective and have not been early adopted by the Company

- IFRS 8 "Operating Segments" (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 replaces IAS 14, "Segment reporting" and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The expected impact is being assessed in detail by management and the impact is not yet known or reasonably estimable. The Company will apply the Standard from 1 January 2009.
- IAS 23 (Amendment) "Borrowing Costs" (effective from 1 January 2009) – It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009. The expected impact is being assessed in detail by management. The Company will apply the Standard from 1 January 2009.
- IAS 1 (Revised 2007) Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009) – The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances. The Company will apply the Standard from 1 January 2009.
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Company will apply the Standard from 1 January 2010.
- IAS 27 (Revised 2008), "Consolidated and Separate Financial Statements"* (effective from 1 July 2009) – The amendment to IAS 27 (Revised 2008) specifies the accounting for changes in the level of ownership interest in a subsidiary, the accounting for the loss of control of a subsidiary and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The expected impact is still being assessed in detail by management and the impact is not yet known or reasonably estimable. The Company will apply the Standard from 1 January 2010.
- Improving Disclosures about Financial Instruments – Amendment to IFRS7, "Financial Instruments and Disclosures" * (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The Company will be required to dislose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantees contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) required disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. The Company will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Company is currently assessing the impact of the amendment on disclosures in its financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards and amendments that are not relevant and not yet effective and have not been early adopted by the Company

- IFRS 1 (revised) 'First-time adoption'* (effective from 1 January 2009) – This standard that does not contain any technical changes as it only improves the structure, which had become complex due to the numerous amendments in recent years. The Company will apply the standard from 1 January 2009 but it is not expected to have any impact on the Company's financial statements.
- IFRS 2, Share-based Payment (Amendment 2008: Vesting Conditions and Cancellations) (effective from 1 January 2009) – The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply the Standard from 1 January 2009 but it is not expected to have significant impact on the Company's financial statements.
- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate' (effective from 1 January 2009) – This amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements on transition to IFRS. An entity shall recognise a dividend from subsidiary, jointly controlled entity or associate in profit or loss in its separate financial statements when its right to receive the dividend is established. In addition when a parent reorganises the structure of its group by establishing a new entity as its parent in a manner that satisfies certain criteria, the new parent shall measure cost at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The Company will apply the standard from 1 January 2009 but it is not expected to have any impact on the Company's financial statements.
- IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation)* (effective from 1 January 2009) – These amendments address the classification of some puttable financial instruments and instruments or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation.
- IFRIC Interpretation 13 "Customer Loyalty Programmes" (effective from 1 July 2008) (EU IFRS: 1/1/2009) – Addresses the accounting for a company that awards customer loyalty credits.
- IFRIC 15, Agreements for the construction of real estate* (effective 1 January 2009) – Addresses the accounting for real estate sales.
- IFRIC 16, Hedges of a net investment in a foreign operation* (effective 1 October 2008) – Clarifies certain aspects in relation to net investment hedging.
- IFRIC 17, Distributions of non-cash assets to owners* (effective from 1 July 2009) – Clarifies how an entity should measure distribution of assets, other than cash, when it pays dividends to its owners. The Company will apply the Standard from 1 January 2010 but it is not expected to have any impact on the Company's financial statements.
- IFRIC 18, "Transfers of asset by customers"* (effective from 1 July 2009) – addresses the accounting of an asset received from a customer in return for connection to a network or ongoing access to goods and services.
- Amendment to IAS 39, 'Financial Instruments: 'Recognition and measurement-Eligible hedged items'.* (effective from 1 July 2009) – This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.
- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on its financial statements.

*Standards and interpretations which have not yet been endorsed by the European Union.

The Board of Directors anticipates that the adoption of the remaining Standards in future periods will have no material impact on the financial statements of the Company.

Revenue recognition

Revenues earned by the Company are recognised on the following basis:

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

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

Foreign currency translation

Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. However, the 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. The results and financial position of the Company are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– income and expense items at the average of the average exchange rates for January to August and average monthly rates for the remaining months of the year, which approximates the exchange rate existing at the date of transactions; and,
– share capital, share premium and all other reserves are translated using the historic rate.

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

Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other gains – net'.

Current and deferred income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the temporary difference will not reverse in the foreseeable future.

Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

	Number of years
Motor vehicles	3

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

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

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 Company 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.

Investments in subsidiary undertakings
Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements.

Impairment of non-financial assets
Assets that have an 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).

Financial assets
The Company classifies its financial assets as loans and receivables. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, loans to related parties 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 the income statement. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

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

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade 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 trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Share capital
Ordinary shares are classified as equity.

Incremental costs directly related to the issue of new shares are shown 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.

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

Provisions are measured at the present value of the expenditures 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 in the income statement 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 Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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

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.

Comparatives
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company'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 Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial results.

Market risk

i) Foreign exchange risk

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

During the second half of 2008 the Russian Rouble has weakened against the US dollar, which has resulted in a positive effect for the Company by increasing the value of its US dollar denominated assets when converted to the functional currency. However, there is no certainty that the trend will not reverse and the Russian Rouble may appreciate in value against the US dollar in the future, leading to the Company realizing a foreign exchange loss on its US dollar denominated assets. The Company is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Rouble. However, the Company manages the amount of current assets denominated in US dollars to reflect the level of current liabilities denominated in that currency in order to minimize the exposure to the foreign exchange fluctuations.

Carrying amounts of monetary assets and liabilities denominated in US dollars as at 31 December 2008 and 31 December 2007 are as follows:

	2008 US$	2007 US$
Assets	142,189,915	5,220,271
Liabilities	76,022,990	11,934,774

Had US dollar exchange rate strengthened/weakened by 33% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2008 would have decreased/increased by US$21,835,085. Had US dollar exchange rate strengthened/weakened by 6% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2007 would have decreased/increased by US$306,181. This is mainly due to foreign exchange gains and losses arising upon restatement of accounts receivable and cash and cash equivalents denominated in US dollars.

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

ii) Cash flow and fair value interest rate risk

All of the Company's loans receivable are provided to the subsidiaries at fixed interest rates, therefore the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of trade and other receivables (Note 17), and cash and cash equivalents (Note 18).

The majority of trade and other receivables are balances with related parties.

The carrying amount of accounts receivable represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

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

	Fully collectible US$	Overdue US$	Impaired US$	Impairment provision US$	Total US$
As of 31 December 2008					
Accounts receivable	54,615,541	–	–	–	54,615,541
As of 31 December 2007					
Accounts receivable	10,912,219	–	–	–	10,912,219

Liquidity risk

As at 31 December 2008, the Company has a net working capital surplus of US$36,076,528 (2007: US$842,674).

Management believes that the Company will be able to meet its obligations as they fall due.

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 loans and by budgeting procedures.

The table below summarizes the analysis of financial liabilities of the Company by maturity as of 31 December 2008 and 31 December 2007. The amounts in the table are contractual discounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US$	Between one month and three months US$	Between three and six months US$	Less than one year US$	Between one and two years US$	Total US$
As of 31 December 2008						
Trade and other payables[1]	30,046,745	–	9,615,178	12,396,803	24,129,342	**76,188,068**
As of 31 December 2007						
Trade and other payables	6,883,814	2,000,000	2,580,000	–		**11,463,814**

[1]Trade and other payable exclude statutory liabilities as the analysis is provided for financial liabilities only.

Capital risk management

The Company'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 Company, maintain optimum equity structure and reduce its cost of capital.

Defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalization ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid, or sell assets in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

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

As at 31 December 2008 and 31 December 2007 the Company has borrowings amounted to US$nil.

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 Company, using available market information in existence, 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 Company 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 new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate 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.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. There were no estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5 SALES

	2008 US$	2007 US$
Sale of investments in subsidiaries	–	2,330,288
Interest on loans to related parties (Note 21(a))	2,567,356	668,221
Dividend income	13,065,875	29,980,149
Total	**15,633,231**	32,978,658

6 OTHER LOSSES

	2008 US$	2007 US$
Net foreign exchange transaction gains/(losses) (on non-financing activities) (Note 11)	(48,588)	–
Total other losses	**(48,588)**	**–**

7 EXPENSES BY NATURE

	2008 US$	2007 US$
Auditors' remuneration	444,882	624,022
Auditors' remuneration – underprovision of prior year	359,993	–
Advertising and marketing expenses	120,338	–
Office rent	55,748	–
Depreciation of property, plant and equipment (Note 13)	1,768	–
Employee benefit expense (Note 8)	150,464	–
Cost of shares sold	–	2,543,946
Legal, consulting and other professional services	8,980,473	25,047
Other expenses	406,269	32,216
Total cost of shares sold, selling and marketing costs and administrative expenses	**10,519,935**	**3,225,231**

8 EMPLOYEE BENEFIT EXPENSE

	2008 US$	2007 US$
Wages and salaries	144,680	–
Social security costs	5,784	–
Total employee benefit expense	**150,464**	**–**

9 FINANCE INCOME/(COSTS)

	2008 US$	2007 US$
Finance income:		
Interest on bank balances	1,451,695	–
Interest on bank deposits	20,549	1,007,287
Total finance income	**1,472,244**	**1,007,287**
Finance costs:		
Interest on bank borrowings	(383)	(9,318)
Net foreign exchange transaction gains/(losses) on financing activities (Note 11)	32,042,295	(2,418,410)
Total finance costs	**32,041,912**	**(2,427,728)**
Total finance income/(costs) – Net	**33,514,156**	**(1,420,441)**

10 INCOME TAX EXPENSE

	2008 US$	2007 US$
Current tax:		
Withholding tax	653,293	1,457, 836
Corporation tax	37,878	–
Special contribution for defence	2,055	100,728
Total tax expense	**693,226**	**1,558,564**

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

	2008 US$	2007 US$
Profit before tax	**38,734,549**	**28,332,986**
Tax calculated at the applicable tax rate of 10%	3,873,455	2,833,299
Tax effect of expenses not deductible for tax purposes	883,532	22,261
Tax effect of allowances and income not subject to tax	(3,469,875)	(1,590,544)
Tax effect of tax losses for which no deferred tax assets was recognised	–	–
Tax effect of utilisation of previously unrecognised tax losses	595,941	192,820
Special defence contribution	2,055	100,728
Tax charge	**693,226**	**1,558,564**

The Company is subject to corporation tax on taxable profits at the rate of 10%.

Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax sale burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

The Company did not provide for deferred taxation on the grounds that it is uncertain whether taxable profits will be available against which taxable losses can be utilised.

11 NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2008 US$	2007 US$
Finance income/(costs) (Note 9)	32,042,295	(2,418,410)
Other losses (Note 6)	(48,588)	–
Total foreign exchange gains/(losses)	**31,993,707**	**(2,418,410)**

12 DIVIDENDS

On 4 March 2008, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2008 of US$0.89 per share, amounting to a total dividend of US$8,900,000. The dividend was paid in the period from 31 March 2008 to 30 April 2008.

During 2007, the Board of Directors declared and the shareholders approved the payment of a dividend in respect of the year ended 31 December 2006 of US$0.12 per share, amounting to a total dividend of US$1,200,000. Furthermore, during 2007, the Board of Directors declared payments of interim dividends in respect of the year ended 31 December 2007 of US$2.63 per share, amounting to a total dividend of US$26,300,000. An amount of US$20,900,000 was paid in 2007. The balance was paid in January 2008. During 2007, the Board of Directors declared the payment of an interim dividend from the capital contribution reserve in respect of the year ended 31 December 2007 of US$1.40 per share amounting to US$14,075,000. An amount of US$9,223,000 was paid in 2007. The balance was paid during the period from January to March 2008.

13 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles US$	Total US$
Year ended 31 December 2008		
Additions	14,556	**14,556**
Depreciation charge	(1,768)	**(1,768)**
Exchange difference	(1,961)	**(1,961)**
Closing net book amount	10,826	**10,826**
At 31 December 2008		
Cost	12,323	**12,323**
Accumulated depreciation	(1,497)	**(1,497)**
Net book amount	10,826	**10,826**

14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2008 US$	2007 US$
At beginning of year	178,888,403	25,783,931
Capital contribution	75,229,750	92,524
Additions	76,453,097	140,000,000
Currency translation differences	(31,457,546)	15,555,894
Disposals	–	(2,543,946)
At end of year	**299,113,704**	**178,888,403**

Details of the investments in the subsidiary undertakings are as follows:

Name	Country of incorporation	Principal activities	% interest held 2008	% interest held 2007
AS Spacecom	Estonia	Operating lease of rolling stock and provision of forwarding services	61	–
AS Intopex Trans	Estonia	Operating lease of rolling-stock	65	–
Ukrainian New Forwarding Company LLC	Ukraine	Railway transportation	100	–
OOO Sevtekhnotrans	Russia	Railway transportation	100	100
OJSC New Forwarding Company	Russia	Railway transportation	100	100

In December 2008 the Company acquired 61% shareholding in AS Spacecom, Estonia for a total consideration of US$64,000,000 and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000,000. The total consideration and interest accrued shall be paid in instalments until November 2010 (Note 21). AS Spacecom has two wholly owned subsidiaries, AS Skinest Veeremi, Estonia and Hoover SIA, Latvia.

In May 2007 the Company acquired from its shareholders their shareholding in OOO Sevtekhnotrans, a railway transportation company. 28.75% of share capital of OOO Sevtekhnotrans was acquired for a total consideration of US$40,250 thousand. The remaining share capital (71.25%) with a value of US$99,750 thousand was transferred at no consideration as capital contribution.

15 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

	Loans and receivables US$	Total US$
31 December 2008		
Financial assets as per balance sheet		
Trade and other receivables[1]	54,615,541	54,615,541
Cash and cash equivalents	87,573,059	87,573,059
Total assets	**142,188,600**	**142,188,600**

	Financial liabilities measured at amortised cost US$	Total US$
Financial liabilities as per balance sheet		
Trade and other payables[2]	76,188,068	76,188,068
Total liabilities	**76,188,068**	**76,188,068**

	Loans and receivables US$	Total US$
31 December 2007		
Financial assets as per balance sheet		
Trade and other receivables[1]	10,912,219	10,912,219
Cash and cash equivalents	1,865,229	1,865,229
Total assets	**12,777,448**	**12,777,448**

	Financial liabilities measured at amortised cost US$	Total US$
Financial liabilities as per balance sheet		
Trade and other payables[2]	11,463,814	11,463,814
Total liabilities	**11,463,814**	**11,463,814**

[1]Trade and other receivables do not include impaired and past due receivables, taxes and prepayments.
[2]Trade and other payables do not include accrued expenses

16 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to historical information about counterparty default rates:

	2008 US$	2007 US$
Counterparties without external credit rating		
Group 1	54,615,541	10,912,219

Cash at bank and short-term bank deposits

Agency	Rating	2008 US$	2007 US$
Moody's*	Baa2	36,991	1,865,229
Moody's	Baa1	93	–
Moody's	Aa2	87,535,976	–
Total cash at bank and short-term bank deposits		**87,573,059**	**1,865,229**

*International rating agency Moody's Investors Service.
Group 1 – Related party loans and other receivables from related parties

17 TRADE AND OTHER RECEIVABLES

	2008 US$	2007 US$
Loans to related parties (Note 21)	53,700,000	3,362,858
Interest receivable from related parties (Note 21)	915,541	–
Receivable from related parties (Note 21)	–	7,549,361
Prepayments – third parties	28,142	–
VAT and other taxes recoverable	10,647	
Total trade and other receivables	**54,654,330**	**10,912,219**
Less non-current portion:		
Loans to related parties (Note 21)	53,700,000	–
Total non-current portion	**53,700,000**	**–**
Current portion	**954,330**	**10,912,219**

The weighted average interest rate on loans receivable from related parties was 8% in 2008 (2007: 12.5%)

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

	2008 US$	2007 US$
Financial assets		
Loans to related parties	55,274,013	–
Interest receivable from related parties	915,541	–
Receivable from related parties	–	7,549,361
Total financial assets	**56,189,554**	**7,549,361**
Non-financial assets		
Prepayments – third parties	28,142	–
VAT and other taxes recoverable	10,647	–
Total non-financial assets	**38,789**	**–**
Total trade and other receivables	**56,228,343**	**7,549,361**

There are no impaired assets within trade and other receivables. Trade and other receivables are impaired only when there is an indication that the counterparty is unable to repay the balance.

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

	2008 US$	2007 US$
US Dollars	54,618,041	3,362,858
Great Britain Pounds	14,505	–
Russian roubles	–	7,549,361
Euro	21,784	–
Total financial assets	**54,654,330**	**10,912,219**

18 CASH AND CASH EQUIVALENTS

	2008 US$	2007 US$
Cash at bank	87,573,059	65,229
Short-term bank deposits	–	1,800,000
Total cash and cash equivalents	**87,573,059**	**1,865,229**

The Company has no short-term bank deposits as at 31 December 2008. The effective interest rate on short-term bank deposits for the year ended 31 December 2007 was 4.54% and these deposits had an average maturity of 5 days.

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

	2008 US$	2007 US$
Cash and cash equivalents	87,573,059	1,865,229

19 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares US$	Share capital US$	Share premium US$	Total US$
At 1 January 2007/31 December 2007/1 January 2008	10,000,000	10,000,000	61,560,000	71,560,000
Change of nominal value	90,000,000			
Issue of shares	16,959,064	1,695,906	223,011,692	224,707,598
Incremental costs directly attributable to the issue of new shares	–	–	(5,427,286)	(5,427,286)
At 31 December 2008	**116,959,064**	**11,695,906**	**279,144,406**	**380,840,312**

The total authorised number of ordinary shares is 116,959,064 shares (2007: 10,000,000 shares) with a par value of US$0.10 per share. All issued shares are fully paid.

On 19 March 2008, the Company changed its authorized share capital from 10,000,000 shares with a par value of US$1 per share to 100,000,000 shares with a par value of US$0.10 per share. It also increased its total authorized number of ordinary shares to 116,959,064 shares with a par value of US$0.10 per share.

Following the initial public offering (IPO) on 30 April 2008 of Global Depository Receipts, on 6 May 2008, the Company has issued 16,959,064 new ordinary shares out of the authorized share capital as fully paid at a price of US$13.25 (including a premium of US$13.15 per share). In the context of the IPO, the existing shareholders have also sold 18,543,791 shares in the Company to the public.

The expenses directly attributable to the new shares issued amounting to US$5,427 thousand were capitalised against share premium.

20 TRADE AND OTHER PAYABLES

	2008 US$	2007 US$
Current		
Other payables	194,804	11,314
Accrued expenses	360,067	470,960
Payables to related parties (Note 21)	52,019,608	11,452,500
Total current trade and other payables	**52,574,479**	**11,934,774**
Non-current		
Payables to related parties (Note 21)	24,129,342	–
Total non-current trade and other payables	**24,129,342**	–

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

21 RELATED PARTY TRANSACTIONS

The Company is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the

Company's shares. Envesta Investments Limited owns 19.55% (including the holding of GDRs of the Company) of the Company's shares. The remaining 30.35% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Company is Leverret Holding Limited.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Related parties may enter into transactions, which unrelated parties may 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) Loans to related parties

	2008 US$	2007 US$
Loans to subsidiaries:		
At beginning of year	–	–
Loan advances	71,431,257	–
Interest charged	2,558,751	–
Loan repaid during the year	(24,391,991)	–
Interest repaid during the year	(1,583,958)	–
Net foreign exchange	6,601,482	
At end of year	**54,615,541**	**–**
Consists of:		
Non-current portion	53,700,000	
Current portion	915,541	
At end of year	**54,615,541**	**–**

The balance at the year end carries interest at the rate of 8.0% per annum and is payable by December 2013.

	2008 US$	2007 US$
Loan to other related party:		
At beginning of year	3,362,858	1,840,604
Loan advances	–	8,690,000
Interest charged	8,604	668,221
Loan repaid during the year	(3,128,274)	(7,336,007)
Interest repaid during the year	(184,750)	(499,960)
Net foreign exchange	(58,438)	–
At end of year	**–**	**3,362,858**

21 RELATED PARTY TRANSACTIONS (continued)

The loan to other related party carried interest at a rate of 12.5% per annum and was repaid in January 2008.

	2008 US$	2007 US$
Total loans:		
At the beginning of year	3,362,858	1,840,604
Loan advances	71,431,257	8,690,000
Interest charged (Note 5)	2,567,355	668,221
Loan repaid during the year	(27,520,265)	(7,336,007)
Interest repaid during the year	(1,768,708)	(499,960)
Net foreign exchange	6,543,044	–
At end of year (Note 17)	**54,615,541**	**3,362,858**

	2008 US$	2007 US$
Total loans:		
Current	915,541	3,362,858
Non-current	53,700,000	–
At end of year (Note 17)	**54,615,541**	**3,362,858**

b) Year end balances with related parties

	2008 US$	2007 US$
Receivables from related parties (Note 17):		
Subsidiary	–	7,549,361

	2008 US$	2007 US$
Payables to related parties:		
Entity with significant influence	–	1,980,000
Subsidiary	118,333	–
Parent entity	76,022,990	9,472,500
Director	7,627	–
Total payables to related parties (Note 20)	**76,148,950**	**11,452,500**

	2008 US$	2007 US$
Payables to related parties:		
Current	52,019,608	11,452,500
Non-current	24,129,342	–
Total payables to related parties (Note 20)	**76,148,950**	**11,452,500**

The balance payable to the parent entity relates to the deferred consideration payable for 61% share in AS Spacecom and 65% share on AS Intopex Trans which were acquired in December 2008 (Note 14 and 21(d)). The balance is payable according to the following payment schedule:

Term	US$
On or before 10 January 2009	30,000,000
On or before 1 May 2009	10,000,000
On or before 1 November 2009	13,000,000
On or before 1 May 2010	13,000,000
On or before 1 November 2010	13,000,000
Total consideration	**79,000,000**

Starting from 1 June 2009 interest shall start to accrue on the outstanding amount at the rate of 15% per annum, interest accrued on each instalment shall be paid by the Company to the parent entity simultaneously with the payment of the relevant instalment.

The above deferred consideration was recognised at the fair value of US$76,022,990 derived by discounting future payments using the discount rate of 15.8%.

c) Directors' remuneration

	2008 US$	2007 US$
Directors' fees	185,404	–
Emoluments in their executive capacity	119,821	–
Total directors' fees	**305,225**	**–**

d) Other transactions with related parties

In December 2008 the Company acquired from its parent entity 61% shareholding in AS Spacecom, Estonia for a total consideration of U$64,000,000 and 65% shareholding in AS Intopex Trans, Estonia for a total consideration of US$15,000,000. Both companies are engaged in operating lease of rolling stock and AS Spacecom is also engaged in railway freight forwarding services.

In accordance with the accounting policies of the Company, the investment in AS Spacecom was recognised at the fair value of US$61,660 thousand and AS Intopex Trans at the fair value of US$14,363 thousand by discounting future payments to be made using the weighted average cost of capital.

22 CONTINGENCIES

Operating environment of the Company

The Company's subsidiaries mainly operate in the Russian Federation, Ukraine and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. There has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies.

The commodities market was also impacted by the latest events on the financial markets. A number of measures have been undertaken to support the Russian financial markets.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation.

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

Estonia represents well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Company to obtain new borrowings.

Debtors of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

22 CONTINGENCIES (continued)

Recent volatility in global financial markets

While the Company does not have any exposure to the US sub-prime market, the ensuing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market financing opportunities, a decline in the global stock markets and higher interbank lending rates, making financing more difficult and more expensive to obtain. Such circumstances may affect the ability of the Company to obtain borrowings at terms and conditions that applied to earlier transactions. The debtors of the Company may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in its impairment assessments. Management is unable to reliably estimate the effects on the Company's financial position of any further deterioration in the liquidity of the financial markets and their increased volatility. Management believes it is taking all the necessary measures to support the sustainability and growth of the Company' s business in the current circumstances.

23 EVENTS AFTER THE BALANCE SHEET DATE

Devaluation of the Russian Rouble

As a result of global volatility in financial and commodity markets, amongst other factors, there has been increased volatility in currency markets and the Russian Rouble has depreciated significantly against some major currencies. As of 10 April 2009 the Russian Rouble has depreciated against the US Dollar from 29.3804 to 33.5334 Russian Roubles (official exchange rate of the Central Bank of Russia) (14% devaluation). The impact of a reasonable possible change in the Russian Rouble to US Dollar exchange rate of 33%on the Company's post–tax profit for the year with all other variables remaining unchanged is disclosed in Note 3. Management is closely monitoring and evaluating the impact of the changes in foreign exchange rates. Management cannot currently estimate the effect of the changes in foreign exchange rates on the Company's presentation currency.

In March 2009 the Board of Directors of the Company approved granting of the long-term loan facility in the amount not exceeding US$20,000,000 to OJSC New Forwarding Company at the interest rate of 8% per annum.

On 5 February 2009 the Board of Directors of the Company approved the execution of additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle the instalment ahead of schedule and the Parent entity agreed to offer a discount on the total purchase price should such early settlement be made by the Company.

The Company has settled the instalment which was due no later than 1 May 2009 on 11 February 2009 and as a result received a discount from the Parent entity on the total purchase price of AS Spacecom and AS Intopex Trans of US$195 thousand and US$22 thousand respectively.

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

Independent Auditors' Report on pages 9 to 10

Notes:

Shareholders' Information

Detailed below are contacts and various addresses that shareholders may find useful.
More up-to-date investor information, including the Group's current and historic share prices, corporate news, latest operational and financial results, presentations and other updates is available on the Globaltrans corporate website at www.globaltrans.com. An electronic copy of the current Annual Report can be also viewed online or downloaded from Globaltrans' corporate website.

If you would like to receive the latest corporate news and updates by email, please register your current email address at www.globaltrans.com or send a request to ir_team@globaltrans.com.

Ticker symbols
London Stock Exchange: GLTR
Reuters: GLTRq.L
Bloomberg: GLTR LI
Rule 144A: GDR CUSIP 37949E105
Regulation S: GDR CUSIP 37949E204

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