

**IMPORTANT: You must read the following before continuing.** The following applies to the prospectus (the “**Prospectus**”) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from Open Joint Stock Company “Center for Cargo Container Traffic “TransContainer”” (the “**Company**”) as a result of such access. The Prospectus has been prepared solely in connection with the offering to certain institutional and professional investors of the securities described herein. The Prospectus is a final prospectus and investors should only subscribe for or purchase securities on the basis of the information in the Prospectus. Copies of the Prospectus have been published and made available to the public in accordance with the applicable rules. The Prospectus has been approved by the United Kingdom Financial Services Authority as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000. The Prospectus is available to the public in accordance with the Prospectus Rules.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS PROSPECTUS MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE US SECURITIES ACT OF 1933 (THE “SECURITIES ACT”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT.

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

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Prospectus.

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

This Prospectus is not an offer to sell nor is it soliciting an offer to buy securities in any jurisdiction where such offer or sale is not permitted.



## Open Joint Stock Company "TransContainer"

(an open joint stock company organised under the laws of the Russian Federation)

### **Offering of 5,002,118 ordinary shares in the form of ordinary shares and Global Depositary Receipts Offer Price: US\$80 per ordinary share and US\$8 per Global Depositary Receipt**

This Prospectus (the "Prospectus") relates to an offering by Open Joint Stock Company Russian Railways ("Russian Railways" or the "Selling Shareholder") of 2,484,037 ordinary shares and by Moore Transcontainer Ltd. ("Moore") of 347,369 ordinary shares of Open Joint Stock Company Center for Cargo Container Traffic TransContainer (the "Company") each with a nominal value of RUR 1,000 (each, an "Ordinary Share" and together the "Ordinary Shares") offered in the form of global depositary receipts ("GDRs") with ten GDRs representing an interest in one Ordinary Share (the "GDR Offering"). The GDRs are being offered to qualified investors outside the United States and Russia in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act"). Contemporaneously, the Selling Shareholder is offering 2,170,712 Ordinary Shares (the "Shares") outside the United States in reliance on Regulation S (the "Share Offering", and together with the GDR Offering, the "Offering"). In addition, Russian Railways will be offering to certain employees of the Company of up to 208,421 Ordinary Shares (the "Management Incentive Shares", and together with the Shares and the GDRs, the "Securities") at a discount to the Offer Price (the "Management Incentive Offering").

**The Securities have not been, and will not be, registered under the Securities Act or with any securities regulatory authority in any State of the United States and may not be offered or sold within the United States. Under the Securities Act, purchasers of the Securities may not offer, sell, pledge or otherwise transfer the Securities in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Securities are subject to selling and transfer restrictions in certain jurisdictions. See "Selling and Transfer Restrictions".**

Prior to the Offering, there has been no public market for the Securities. The Company's ordinary shares were listed on quotation list "I" of Open Joint Stock Company Russian Trading System Stock Exchange (the "RTS") and on list "I" of Closed Joint Stock Company MICEX Stock Exchange (the "MICEX"), in each case under the symbol "TRCN". Trading in the ordinary shares on the RTS and MICEX is expected to commence on or about the date of this Prospectus.

This document constitutes a prospectus relating to the Company prepared in accordance with the prospectus rules (the "Prospectus Rules") of the UK Financial Services Authority (the "FSA") made under Section 73A of the Financial Services and Markets Act 2000 (the "FSMA"). Application has been made solely for the admission of the GDRs to the official list maintained by the FSA (the "Official List") and to the regulated main market of London Stock Exchange plc ("London Stock Exchange"). This Prospectus has been prepared in connection with the application for the admission of the GDRs to the regulated main market of the London Stock Exchange. Approval of the FSA has not been sought for this document in relation to the offering of Shares or Management Incentive Shares and no Shares or Management Incentive Shares will be listed on the main market of the London Stock Exchange. There will be no public offering of the Shares or the Management Incentive Shares outside of Russia. This document will be made available to the public in accordance with the Prospectus Rules. Application has been made to the FSA in its capacity as competent authority under the FSMA for the admission of up to 28,314,060 GDRs to the Closing Date (as defined below) against the deposit of ordinary shares with BNY Mellon (Cyprus) Nominees Limited (the "Depositary"), to the Official List and to the regulated main market of the London Stock Exchange for admission of the GDRs to trading under the symbol "TRCN". The regulated main market of the London Stock Exchange is a regulated market under the Markets in Financial Instruments Directive (2004/39/EC). Admission to the Official List together with admission to the regulated main market of the London Stock Exchange constitutes admission to official listing on a stock exchange ("Admission"). The Company expects that conditional trading in GDRs through the International Order Book ("IOB") will commence on a "when and if issued" basis on or about 9 November 2010, and unconditional trading through the IOB will commence on or about 12 November 2010. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if the expected admission to the London Stock Exchange does not take place and will be at the sole risk of the parties concerned.**

**Investment in the Securities involves a high degree of risk. For a discussion of certain factors regarding our business, the ordinary shares and the GDRs which should be considered by potential investors in making an investment decision, see "Risk Factors".**

The GDRs offered pursuant to Regulation S will be evidenced by a master Regulation S GDR (the "Master Regulation S GDR"), which will be registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon London Branch, as common depositary for Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The ordinary shares represented by the GDRs will be held by VTB Bank, Open Joint Stock Company, as custodian (the "Custodian"), for the Depositary. Except as described herein, beneficial interests in the Master GDR will be held, and transfers thereof will be elected only through, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. Transfers within Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the GDRs will be made against payment therefor in same day funds at the closing of the Offering on or about 12 November 2010 (the "Closing Date") through Euroclear and Clearstream, Luxembourg.

Each purchaser of the GDRs must pay for such GDRs in US dollars and for the Shares in US dollars or Roubles. Investors must notify the Joint Global Coordinators of the currency of payment for the Shares not later than the date of this Prospectus.

In order to take delivery of the Shares, each purchaser should either have a direct account with the registrar or a deposit account with Closed Joint Stock Company Depository Clearing Company ("DCC"), or Non-Profit Partnership The National Depository Center ("NDC") or any other depositary that has an account with DCC or NDC or a direct account with the Company's registrar. Investors may, at their own expense, choose to hold the Shares through a direct account with the registrar or a Russian-licensed depositary (other than DCC or NDC) having an account with the Company's registrar. Any Shares that are directly held are ineligible for trading on MICEX or RTS.

*Joint Global Coordinators and Joint Bookrunners*

**J.P. Morgan**

**Morgan Stanley**

**Troika Dialog**

*Co-Bookrunner*

**TKB Capital**

The date of this Prospectus is 9 November 2010



## IMPORTANT INFORMATION

We accept responsibility for the contents of the Prospectus. We declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Prospectus is being furnished by us solely for the purpose of enabling a prospective investor to consider the purchase of the Securities offered in the Offering. No representation or warranty, express or implied, is made, nor any responsibility assumed, by any Manager (as defined below) or any of their affiliates or advisors as to the accuracy or completeness of any information contained in the Prospectus, and nothing contained in the Prospectus is, or shall be relied upon as, a promise or representation by any Manager or any of their affiliates or advisors as to the past or the future. Any reproduction or distribution of the Prospectus, in whole or in part, any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Securities offered in the Offering is prohibited, except to the extent that such information is otherwise publicly available. Each prospective investor, by accepting delivery of the Prospectus, agrees to the foregoing.

J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc, CJSC “Investment Company “Troika Dialog”” and TD Investments Limited (the “**Joint Global Coordinators**”), TKB Capital (CJSC) (the “**Co-Bookrunner**”, and together with the Joint Global Coordinators, the “**Managers**”) are acting exclusively for us and the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

The Prospectus is personal to each prospective investor and does not constitute an offer to any other person or to the public generally to purchase or otherwise acquire the Securities. In making an investment decision, prospective investors should rely on their own investigation and analysis of us, and their own determination of the suitability of any such investment, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the Securities. Any decision to buy the Securities should be based solely on the information contained in the Prospectus. No person has been authorised to give any information or to make any representations in connection with the Offering other than those contained in the Prospectus. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by us, the Selling Shareholder or the Managers, any of our or their respective affiliates, advisors or selling agents or any other person. At any time following the date of the Prospectus, the information contained in the Prospectus may no longer be correct and our business, financial condition or results of operations may have changed.

No representation is made by us, the Selling Shareholder, any of the Managers or our or their respective representatives to prospective investors as to the legality of an investment in the Securities. Prospective investors should not construe anything in the Prospectus as legal, business, financial, investment, tax or related advice. In making an investment decision, potential investors should rely upon their own examination of us, the terms of the Offering and the financial statements and other information included in the Prospectus, and should consult their own advisors as to the legal, business, financial, investment, tax and other related aspects of an investment in the Securities.

The Prospectus does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the Securities. The distribution of the Prospectus and the Offering of the Securities may, in certain jurisdictions, be restricted by law and the Prospectus may not be used for the purpose of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession the Prospectus comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. Neither we, nor the Selling Shareholder, nor any of the Managers accept any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

We, the Selling Shareholder and the Managers reserve the right to withdraw the Offering in whole or in part or to reject any offer to purchase the Securities in whole or in part and to sell to any prospective investor less than the full amount of the Securities sought by such prospective investor.

No action has been or will be taken in any jurisdiction, in respect of the Securities that would permit a public offering of the Securities or the possession, circulation or distribution of the Prospectus or any other material relating to us, the Selling Shareholder or the Securities, in any jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisements in connection with the Securities may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction.

In connection with the Offering, each Manager, and any affiliate acting as an investor for its own account, may purchase the Securities and in that capacity may retain, purchase or sell for its own account the Securities and any of the Securities or related investments and may offer or sell the Securities or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to the Securities should be understood as including any offering or placement of the Securities to the Managers and any affiliate acting in such capacity. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

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

### STABILISATION

In connection with the Offering, Morgan Stanley & Co. International plc (the "**Stabilising Manager**") (or any agent or other person acting for the Stabilising Manager), on behalf of the Managers, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the GDRs or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. However, the Stabilising Manager is not required to enter into such transactions and such stabilisation activities may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the announcement of the Offer Price and ending no later than 30 calendar days thereafter. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions, and there can be no assurance that stabilising transactions will be undertaken. Such stabilising, if commenced, may be discontinued at any time without prior notice and must be brought to an end within 30 days after the commencement of conditional dealings in the GDRs. In no event will measures be taken to stabilise the market price of the GDRs above the Offer Price. Except as required by law and regulation, neither the Stabilising Manager nor any of its agents intends to disclose the content of any over-allotments made and/or stabilising transactions concluded in relation to the Offering. In no event will the Stabilising Manager over-allot in excess of 5 percent of the total numbers of GDRs being offered.

## NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

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

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

- (a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- (b) in the case of any Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:
  - (i) the Securities acquired by it in the Offering have not been acquired on behalf of, or with a view to the offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or
  - (ii) where Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities is not treated under the Prospectus Directive as having been made to such persons.

## NOTICE TO INVESTORS IN RUSSIA

Neither the GDRs nor this Prospectus have been, or are intended to be, registered with the Federal Service for Financial Markets (the “**FSFM**”) or any other state bodies that may from time to time be responsible for such registration and the GDRs are not being offered, sold or delivered in Russia or to any Russian resident except as may be permitted by Russian law. This Prospectus does not constitute a public offer or advertisement for the GDRs in Russia, and is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer the GDRs to any persons in Russia. The statutory prospectus for the ordinary shares was registered with the FSFM on 14 October 2008.

## NOTICE TO PROSPECTIVE INVESTORS IN JAPAN

The Securities offered in this prospectus have not been registered under the Financial Instruments and Exchange Law of Japan (the “**Financial Instruments and Exchange Law**”). The Securities have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese Law.

## ENFORCEMENT OF CIVIL LIABILITIES

The Company is an open joint stock company organised and existing under the laws of the Russian Federation, and as of the date of the Prospectus, the majority of the members of the Board of Directors and management board are residents of the Russian Federation. Russian Railways, the Company’s majority shareholder is an open joint stock company organised and existing under the laws of the Russian Federation, and as of the date of the Prospectus, all

members of the Board of Directors and management board are residents of the Russian Federation. As a result, it may not be possible for prospective investors who purchase the Securities to:

- effect service of process in any jurisdiction other than the Russian Federation upon the Company, Russian Railways or the members of the respective boards of directors or management boards; or
- enforce judgments against the Company, Russian Railways or the members of the respective boards of directors or management board that are obtained in courts located in jurisdictions other than the Russian Federation.

Courts located in the Russian Federation may not enforce any judgment obtained in a court located in a jurisdiction other than the Russian Federation unless:

- there is a treaty in effect between the country in which the judgment was obtained and the Russian Federation providing for the recognition and enforcement of court judgments; and
- the Russian Federation adopts a federal law providing for the recognition and enforcement of foreign court judgments.

As of the date of the Prospectus, no such treaty exists between the Russian Federation and the United Kingdom and the Russian Federation has adopted no such federal law providing for the recognition and enforcement of foreign court judgments. However, even if there were such a treaty, Russian courts could nonetheless refuse to recognise or enforce a foreign court judgment on the grounds set forth in such a treaty and in the applicable Russian law in effect on the date on which such recognition or enforcement is sought.

The Arbitration Procedural Code of the Russian Federation sets forth procedures for the recognition and enforcement of judgment and grounds for refusal of such recognition and enforcement in the event that such a treaty and federal law are adopted. However, Russian procedural law may change, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

## FORWARD-LOOKING STATEMENTS

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

Forward-looking statements reflect our current views of future events, are based on our assumptions and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause our actual financial condition and results to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become or be proven inaccurate. See “*Risk Factors*”.

Accordingly, prospective investors should not rely on the forward-looking statements contained in the Prospectus and prospective investors are strongly advised to read the following sections of the Prospectus: “*Summary*”, “*Risk Factors*”, “*Use of Proceeds*”, “*Operating and Financial Review*”, “*Russian Container Transportation Market*” and “*Business*”. These sections include more detailed descriptions of factors that might have an impact on our business and the industry in which we operate. Neither we, our management, the Selling Shareholder, nor the Managers can give any assurance regarding the future accuracy of the opinions set forth herein or as to the actual occurrence of any predicted developments. After the date of the Prospectus, neither we, the Selling Shareholder, nor the Managers assume, and we, the Selling Shareholder and each of the Managers expressly disclaim, any obligation, to update any forward-looking statement or to conform any forward-looking statement to our actual results.

## PRESENTATION OF FINANCIAL AND RELATED INFORMATION

### Financial Information

Our audited consolidated financial statements included in the Prospectus, together with the notes thereto, were prepared in accordance with International Financial Reporting Standards (the “**IFRS**”), as issued by the International Accounting Standards Board (“**IASB**”), that were in effect as of each of the respective reporting dates. Such IFRS differs from the IFRS that has been adopted for use in the European Union through the endorsement procedure established by the European Commission. IFRS adopted for use in the European Union does not include certain provisions of IAS 39 “*Financial Instruments: Recognition and Measurement*” relating to portfolio hedging of core deposits.

Our consolidated financial statements include:

- our audited consolidated financial statements as of and for the years ended 31 December 2009, 2008 and 2007 (the “**Audited Financial Statements**”); and
- our unaudited interim condensed consolidated financial information as of and for the six months ended 30 June 2010 which include comparative financial information as of and for the six months ended 30 June 2009 (the “**2010 Interim Financial Statements**”, and together with the Audited Financial Statements, the “**Consolidated Financial Statements**”).

The 2010 Interim Financial Statements were prepared in accordance with the requirements of International Accounting Standard 34 (“**IAS 34**”), “*Interim Financial Reporting*”.

The Consolidated Financial Statements, together with the respective notes thereto, are included in the Prospectus beginning on page F-1.

### Non-IFRS Metrics

In this Prospectus we use certain performance metrics in the analysis of our business, financial condition and results of operations, which are not defined by IFRS. We believe that these non-IFRS measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of our business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the transportation and logistics sector. Such performance metrics, included in the Prospectus, are Adjusted Revenue, Adjusted Operating Expenses, EBITDA, EBITDA Margin, Adjusted EBITDA Margin and Adjusted Operating Margin, which are defined as follows:

- Adjusted Revenue is total revenue less third-party charges relating to integrated logistics services.
- Adjusted Operating Expenses are operating expenses less third-party charges relating to integrated logistics services.
- EBITDA is profit for the period before income tax, interest expense and depreciation and amortisation, as reported in our Consolidated Financial Statements.
- EBITDA Margin is EBITDA divided by total revenue.
- Adjusted EBITDA Margin is EBITDA divided by Adjusted Revenue.
- Adjusted Operating Margin is operating income divided by Adjusted Revenue.

As described above, Adjusted Revenue and Adjusted Operating Expenses exclude the third-party services relating to the our integrated logistics services. The costs related to the third-party integrated logistic services represent essentially pass-through revenue and expenses from the portion of the through-rate contracts performed by our third-party vendors. The costs are associated with the infrastructure and locomotive services provided by Russian Railways, third-party trucking services as well as other third-party transportation.

Our integrated service provides bundled transportation services for our customers under a single contract using a combination our own infrastructure and third-party services. Under these integrated logistics service contracts, We earn a fee for bearing all the risks and rewards related to the transportation services and a management fee for our role in securing the third-party service providers on behalf of the customers. This bundled service is unique compared to most market participants, and as such we believe excluding the third-party expenses relating to third-party services shows our results on a more comparable basis to the results of other market participants. Adjusted Revenue and Adjusted Operating Expenses also provide valuable information to the reader, enabling the reader to better focus on the underlying day-to-day performance of our business. By removing the pass-through revenue and



expenses, these non-IFRS measures better reflect the change in the volume of sales from transportation services generated solely by our business activities.

We have disclosed EBITDA, Adjusted EBITDA and the associated margins as we believe these measures are a useful tool for us in evaluating our performance, because they eliminate items related to finance costs, taxes, depreciation and amortisation and other non-recurring expenses. We believe that EBITDA is commonly reported by other businesses and used by investors in comparing the performance of businesses without regard to depreciation and amortisation, which can vary significantly depending upon accounting methods applied.

All of these supplemental metrics have limitations as analytical tools, and investors should not consider any of them in isolation, or any combination of them together, for operating results, liquidity or discretionary cash or as alternatives to revenue, profit, operating income, cash flow from operating activities or any other measures of performance as reported under IFRS. These metrics may not be comparable to other similarly titled metrics as reported by other companies, as other companies may measure their performance differently than we do. Therefore, direct comparisons between, for example, our EBITDA with other companies' EBITDA may be of limited value. See "*Selected Consolidated Financial and Operating Information*".

## Presentation of Currencies

In the Prospectus:

- "Rouble", "Roubles", "RUB" or "RUR" refers to the lawful currency of the Russian Federation;
- "US dollar", "US dollars", "USD" or "US\$" refers to the lawful currency of the United States of America; and
- "Euro", "EUR" or "€" refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as in effect as of the date of the Prospectus.

## Rounding

Some financial and other numerical information in the Prospectus has been rounded and, as a result, the numerical figures shown as totals in the Prospectus may vary slightly from the exact arithmetic aggregation of the figures that precede them.

## Exchange Rate Information

The official currency of the Russian Federation is the Rouble. The Rouble is the presentation and functional currency of our Consolidated Financial Statements as the majority of our assets and operations are located in the Russian Federation.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the Rouble and the US dollar. This information is based on the exchange rates of the Central Bank of the Russian Federation, which uses a composite pricing source. Fluctuations in the exchange rate between the Rouble and the US dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of other information presented in the Prospectus.

	RUR per US\$1.00			Period end
	High	Low	Period average	
<b>Year ended 31 December</b>				
2007	26.58	24.26	25.55	24.55
2008	29.38	23.13	24.87	29.38
2009	36.43	28.67	31.77	30.24
2010				
Six months ended 30 June	31.78	28.93	30.05	31.20
July	31.37	30.19	30.68	30.19
August	30.90	29.80	30.35	30.66
September	31.08	30.40	30.81	30.40
October	30.80	29.63	30.32	30.78
The period to November 8	30.79	30.77	30.78	30.77

The above rates may differ from the actual rates used in the preparation and conversion of financial information appearing in the Prospectus.

## INFORMATION DERIVED FROM THIRD PARTIES

We have obtained certain statistical and market information that is presented in the Prospectus on such topics as the Russian transportation sector, the Russian economy in general and related subjects and other information from the following third-party sources:

- The Central Bank of the Russian Federation (the “**CBR**”);
- Economist Intelligence Unit (“**EIU**”);
- Euromonitor;
- Global Insight;
- Federal Service for State Statistics of the Russian Federation (“**Rosstat**”);
- Ministry of Economic Development of the Russian Federation (“**MED**”);
- Publicly available industry researches published by industry consulting firms (for example, A.T. Kearney);
- Russian Railways; and
- the Depositary.

This third-party information is presented in the Exchange Rate Information, Russian Container and Transportation Market, Business and Information Relating to the Depositary sections of the Prospectus.

We have accurately reproduced such information and, as far as we are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this information with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that certain of our estimates may be based on such third-party information. Neither we nor the Managers have independently verified the figures, market data or other information on which third parties have based their studies.

We have derived substantially all of the information contained in the Prospectus concerning our competitors from publicly available information, such the annual reports of our competitors and other publicly available economic and industry researches, and have accurately reproduced such information and, as far as we are aware and are able to ascertain from such information, no facts have been omitted that would render the reproduced information inaccurate or misleading. We have relied on the accuracy of this information without independent verification.

In addition, some of the information contained in the Prospectus has been derived from official data of Russian government agencies and the CBR. The official data published by Russian federal, regional and local government agencies may be substantially less complete or researched than those of more developed countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in more developed countries. Any discussion of matters relating to the Russian Federation in the Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

## CERTAIN DEFINED TERMS

In the Prospectus:

- “**Board of Directors**” means the Company’s board of directors;
- “**CAGR**” means compound annual growth rate;
- “**CEO**” means the chief executive officer;
- “**CIS**” means the countries that formerly comprise the Union of Soviet Socialist Republics and that are now members or associate members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
- “**CJSC**” means a closed joint stock company under the laws of Russia;
- “**GDP**” means gross domestic product;
- “**JSC**” means a joint stock company incorporated under the laws of Kazakhstan;

- “**LIBOR**” means the London interbank offered rate and is the rate of interest at which banks borrow funds from each other, in marketable size, in the London interbank market;
- “**LLC**” means a limited liability company under the laws of Russia;
- “**OJSC**” means open joint stock company under the laws of Russia;
- “**RAS**” means the Russian Accounting Standards;
- “**Region**” means any of the constituent territories of Russia;
- “**Tax Code**” means the Tax Code of Russia;
- “**VAT**” means value-added tax; and
- “**we**”, “**us**” and “**our**” refer to the Company, its subsidiaries and its joint venture.

## TABLE OF CONTENTS

SUMMARY .....	1
SUMMARY OF FINANCIAL INFORMATION AND OTHER INFORMATION .....	5
RISK FACTORS .....	8
THE OFFERING .....	36
USE OF PROCEEDS .....	40
DIVIDEND POLICY .....	41
CAPITALISATION .....	42
SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION .....	43
OPERATING AND FINANCIAL REVIEW .....	46
RUSSIAN CONTAINER TRANSPORTATION MARKET .....	76
BUSINESS .....	90
DIRECTORS AND SENIOR MANAGEMENT .....	112
PRINCIPAL AND SELLING SHAREHOLDERS .....	119
RELATED PARTY TRANSACTIONS .....	120
REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA .....	123
DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LAW .....	132
PLAN OF DISTRIBUTION .....	149
TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS .....	151
SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM .....	169
TAXATION .....	171
SELLING AND TRANSFER RESTRICTIONS .....	181
SETTLEMENT AND TRANSFER .....	183
INFORMATION RELATING TO THE DEPOSITARY .....	185
LEGAL MATTERS .....	186
INDEPENDENT AUDITORS .....	187
GLOSSARY OF CERTAIN GENERAL TERMS AND ABBREVIATIONS .....	188
ADDITIONAL INFORMATION .....	191
INDEX TO FINANCIAL INFORMATION .....	F-1

(This page intentionally left blank)

## SUMMARY

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

### OUR BUSINESS

We are the leading intermodal container transportation and integrated logistics solutions company in Russia, providing comprehensive container transportation and freight management services. We are the market leader in Russia by flatcar fleet size, twenty-foot equivalent units (“TEUs”) transported by rail and rail-side container terminal throughput, and our market share in these categories as of 30 June 2010 was approximately 60 percent, 53 percent and 34 percent, respectively, according to A.T. Kearney. As of 30 June 2010, we operated approximately 25,500 flatcars. Our flatcars transported approximately 1.1 million TEUs in 2009 and 0.55 million TEUs in the first half of 2010. As of 30 June 2010, we serviced more than 300,000 routes in Russia and abroad. We own a network of rail-side container terminals located at 46 railway stations in Russia and operate one terminal in Slovakia. Our terminals, many of which are located along Russia’s busiest transportation corridors, had a throughput of approximately 1.46 million TEUs in 2009 and 0.73 million TEUs for the six months ended 30 June 2010. By integrating our terminal infrastructure, nationwide sales network, transportation assets, operational experience and market knowledge, we provide a wide range of reliable and tailored intermodal container transportation and integrated logistics solutions to our customers throughout Russia and the CIS. We leverage our unique asset base to serve more than 200,000 customers, including approximately 20,000 regular customers, representing a range of industries, with our top 10 customers representing approximately 23 percent of the total amounts billed to customers for the six months ended 30 June 2010.

Our extensive sales network, consisting of 148 offices and service centres in Russia as well as our presence in the CIS, Europe and Asia, allows us to efficiently serve our existing customers and attract new customers. The close proximity of our sales network to our customers enables us to effectively cross-sell our services and provide timely responses to changes in our customers’ needs.

In 2009, our revenue was RUR 16,400 million, our Adjusted Revenue was RUR 13,262 million and EBITDA was RUR 3,963 million. See “*Selected Consolidated Financial and Operating Information*” for a reconciliation of Adjusted Revenue and EBITDA. For the six months ended 30 June 2010, our revenue was RUR 9,942 million and Adjusted Revenue was RUR 7,469 million. Our EBITDA for the six months ended 30 June 2010 was RUR 1,902 million. As of 30 June 2010, our total assets were RUR 32,196 million and our total liabilities were RUR 13,558 million. For the reconciliation of Adjusted Revenue and EBITDA, see “*Summary of Financial Information and Other Information*”.

### COMPETITIVE STRENGTHS

We believe that, due to the following key competitive strengths, we are strongly positioned to capitalise on the expected growth in Russia’s container transportation market:

- Leading position in the Russian container transportation market.
- Attractive market with strong growth potential.
- Unique asset base in a market with high entry barriers.
- Leading provider of integrated logistics services.
- Wide geographic footprint.
- Broad and diversified customer base.
- Experienced management team and high corporate governance standards.
- Strong relationship with Russian Railways.

## **BUSINESS STRATEGY**

We plan to leverage our significant competitive strengths to grow our revenue and profitability, while maintaining market share sufficient to remain the leading provider of intermodal container transportation and integrated logistics solutions in Russia. Our strategy to achieve these objectives includes the following key elements:

- Increase container transportation volumes by continuing to invest in our flatcar and container fleet.
- Continue to grow our integrated logistics services.
- Continue to expand customer base through development of sales and operational network.
- Continue to improve the efficiency of operations and increase profitability.

## **RECENT DEVELOPMENTS**

### **Acquisition of KDTS and a joint venture with Kazakh Railways**

We are currently negotiating the acquisition of a 67 percent equity stake in JSC Kedentransservice (“**KDTS**”), a leading private operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. See “*Business — Assets — Terminals — Joint Venture with Kazakh Railways*”. The acquisition is expected to be financed by a bank loan. In June 2010, the Board of Directors approved the transaction. The Board of Directors has also approved the general terms of a shareholders’ agreement to be entered into with JSC National Company Kazakh Temir Zholy, the operator of the Kazakh national railway network and related infrastructure (“**Kazakh Railways**”) in relation to the operation of KDTS.

Our ultimate goal in acquiring shares in KDTS is to form a joint venture with Kazakh Railways to jointly operate certain cargo handling terminal facilities as well as to jointly operate flatcars and transport containers in Kazakhstan. Kazakh Railways currently holds a 33 percent equity stake in KDTS and, in the short-to medium-term, subject to us completing the acquisition of a 67 percent stake in KDTS, contemplates the purchase of a 17 percent stake in KDTS from us, which would result in each party having a 50 percent stake in KDTS.

### **Establishment of a subsidiary in Austria**

In August 2010, TransContainer Europe GmbH was registered as the Company’s wholly-owned subsidiary with charter capital of EUR 2,400,000. The main purpose of the Austrian subsidiary is to promote our transportation and logistics services to European customers and to develop transit container transportation between China and Europe. We believe that this subsidiary will improve our international container transportation business, particularly between Russia and Europe and China and Europe.

### **Establishment of a subsidiary in South Korea**

In August 2010, TransContainer Asia Pacific Ltd. was registered in South Korea as our wholly owned subsidiary with charter capital of 460,000,000 South Korean Won. The main purpose of the South Korean subsidiary is to promote our transportation and logistics services to South Korean customers and to offer them integrated logistic solutions in container transportation between South Korea, Russia and the Eastern Europe. We believe that this subsidiary will improve our customer base in South Korea and, respectively, will lead to the growth of import, export and transit container turnover between South Korea and Russia.

## **CURRENT TRADING AND PROSPECTS**

Since 30 June 2010, we have continued to perform in line with the management’s expectations. Management has positive expectations regarding our financial and operating performance over the next twelve months. In particular, management currently believes that the markets in which we operate will continue to recover and international trade will continue to grow. If this recovery persists and trade grows, management currently expects our revenue to grow in line with this recovery as well as with seasonality trends. In accordance with our approved budget, our margins for the second half of the year are expected to be higher than for the first half of the year, although they may be slightly lower than in 2009 as a result of our deferring certain costs (such as flatcar repair costs) from the prior periods to 2010.

## **RISK FACTORS**

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

- Our results of operations and financial condition have been and could continue to be adversely affected by a decline in container transportation volumes resulting from a deterioration in economic conditions.
- The container transportation industry is cyclical and depends on the economic condition of certain industries, which may result in adverse fluctuations in the demand for our services and the price at which we are able to sell such services.
- Our business depends on Russian Railways for infrastructure and the locomotive services it provides.
- We have a large market share in the provision of container transportation and related services, which may subject us to adverse regulatory interference in our operations.
- Our container terminals are “Sites for Common Use” and are subject to regulation, which may restrict our flexibility in using them.
- We are required to transfer our shareholders’ register to another registrar, which may result in the suspension of trading or restrictions on transferability of our shares, or result in technical errors that could lead to the loss of information relating to the shareholders or their title to the shares.
- Our business, financial condition and results of operations may depend on tariffs set by the Federal Tariff Service.
- We may be subject to increasing competition from other transportation and logistics companies and other modes of container transportation.
- Our IFRS financial statements are prepared on the basis of standalone financial statements of our companies, which are prepared in accordance with the local accounting legislation, and the preparation of our IFRS financial statements is not fully automated, which may adversely impact our ability to prepare our IFRS financial statements in a timely manner.
- Our management information systems and internal control systems may be less developed than those of similar companies in more developed markets.
- Our controlling shareholder may have interests that conflict with those of the holders of the Securities.
- Our operating assets are aging and may require repair or replacement, and the renewal of our fleet of flatcars will continue to require significant expenditures.
- We may be unable to obtain financing for our investment programme on commercially acceptable terms, if at all.
- Failure to meet customer expectations could damage our customer relationships and business reputation.
- We depend on customs authorities for the timely provision of our transportation services and delivery of goods to our customers.
- Some of our operations depend on obtaining and maintaining licences, consents and permits necessary for the operation of our business.
- Our insurance policies may be insufficient to cover all risks which can arise in the ordinary course of business.
- A major accident or derailment could result in substantial property loss, business disruption or reputational damage to us.
- We could incur significant costs for violations of applicable environmental laws and regulations.
- We rely heavily on information systems to operate our business, and any failure of these systems could have an adverse effect on our operations.
- We may be unable to retain key personnel or attract and retain highly qualified personnel and may be adversely affected by wage increases and labour disruptions.
- Expansion through acquisition entails certain risks, and we may experience difficulties in integrating and managing new acquisitions.
- We may be exposed to currency exchange rate risks.



- A significant increase in prices for our assets over a short period of time, as well as inflation, could increase our cost base.
- We have not independently verified information we have sourced from third parties.
- We engage and will continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm's-length transactions.
- In the event our past transactions, or future transactions that require an approval in accordance with Russian law, are successfully challenged, they could be invalidated and unwound.
- We are required to engage another financial advisor and our failure to do so in a timely manner could result in the delisting of our shares from RTS and MICEX.
- Risks relating to Russia, including political, economic, social and legal risks.
- Risks relating to the Securities and to the trading market.

#### **SUMMARY OF THE OFFERING**

The Offering consists of an offering by the Selling Shareholder of 4,654,749 Ordinary Shares in the form of ordinary shares and GDRs and an offering by Moore of 347,369 Ordinary Shares in the form of GDRs. The GDRs are being offered to qualified investors outside the United States and Russia in reliance on Regulation S. The Shares are being offered outside the United States in reliance on Regulation S. In addition, the Selling Shareholder will be offering to certain employees of the Company in aggregate up to 208,421 Ordinary Shares at a discount of up to 7.5 percent from the Offer Price, but not below the Minimum Share Price.

Application has been made to the FSA in its capacity as competent authority under the FSMA for the admission of up to 28,314,060 GDRs to be issued on the Closing Date against the deposit of ordinary shares with the Depositary, to the official list maintained by the FSA and to the regulated main market of London Stock Exchange for admission of the GDRs to trading under the symbol "TRCN". There will be no listing of the Shares or the Management Incentive Shares on the main market of the London Stock Exchange. There will be no public offering of the Shares or the Management Incentive Shares outside of Russia.

Prior to the Offering, there has been no public market for the Shares or GDRs. The Shares were listed on quotation list "T" of the RTS and on list "I" of the MICEX, in each case under the symbol "TRCN". Trading in the ordinary shares on the RTS and MICEX is expected to commence on or about 12 November 2010.

#### **USE OF PROCEEDS**

We will not receive any of the proceeds from the sale of the Securities by the Selling Shareholder in this Offering. Gross proceeds to the Selling Shareholder from the Offering are expected to be approximately US\$400 million. Total fees and expenses incurred in connection with the Offering are expected to be approximately US\$12 million, with approximately US\$0.5 million to be paid by the Company.

## SUMMARY OF FINANCIAL INFORMATION AND OTHER INFORMATION

The following summary consolidated historical financial information as at and for the years ended 31 December 2009, 2008 and 2007 has been derived from the Audited Financial Statements, which are included elsewhere in this Prospectus. The unaudited summary consolidated historical interim financial information as at 30 June 2010 and for the six months ended 30 June 2010 and 2009 has been derived from the 2010 Interim Financial Statements, which are included elsewhere in this Prospectus. The 2010 Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", and in the opinion of the Company's management, includes all adjustments, consisting of normal recurring adjustments necessary for a true and fair presentation of interim results. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

Prospective investors should read the following summary consolidated financial information in conjunction with the information contained in "Presentation of Financial and Related Information", "Risk Factors", "Capitalisation", "Operating and Financial Review", "Business", the Annual Financial Statements and the 2010 Interim Financial Statements and the related notes thereto appearing elsewhere in this Prospectus.

### Consolidated Statement of Comprehensive Income

	Six months ended 30 June		Year Ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR) (unaudited)		(in millions of RUR)		
Revenue . . . . .	9,942	7,720	16,400	20,494	13,375
Operating expenses, net . . . . .	(9,160)	(7,118)	(14,726)	(15,570)	(10,686)
<b>Operating income . . . . .</b>	<b>782</b>	<b>602</b>	<b>1,674</b>	<b>4,924</b>	<b>2,689</b>
Interest expense . . . . .	(473)	(491)	(945)	(499)	(31)
Interest income . . . . .	9	33	35	98	115
Foreign exchange (loss)/gain, net . . . . .	(3)	10	4	35	(38)
<b>Profit before income tax . . . . .</b>	<b>315</b>	<b>154</b>	<b>768</b>	<b>4,558</b>	<b>2,735</b>
Income tax expense . . . . .	(118)	(65)	(179)	(988)	(801)
<b>Profit and comprehensive income for the period . . . . .</b>	<b>197</b>	<b>89</b>	<b>589</b>	<b>3,570</b>	<b>1,934</b>

### Consolidated Statement of Financial Position

	As at 30 June	As at 31 December		
	2010	2009	2008	2007
	(in millions of RUR) (unaudited)	(in millions of RUR)		
Property, plant and equipment . . . . .	24,534	23,097	22,059	15,800
<b>Total non-current assets . . . . .</b>	<b>27,088</b>	<b>25,713</b>	<b>24,715</b>	<b>16,854</b>
Trade and other receivables . . . . .	1,940	1,941	1,641	1,164
Prepayments and other current assets . . . . .	2,204	2,263	1,957	1,384
Cash and cash equivalents . . . . .	662	449	453	1,352
<b>Total current assets . . . . .</b>	<b>5,108</b>	<b>5,028</b>	<b>4,334</b>	<b>4,226</b>
<b>Total assets . . . . .</b>	<b>32,196</b>	<b>30,741</b>	<b>29,049</b>	<b>21,080</b>
<b>Total equity . . . . .</b>	<b>18,638</b>	<b>18,443</b>	<b>18,122</b>	<b>14,671</b>
Finance lease obligations, net of current maturities . . . . .	575	1,115	832	294
Long-term debt . . . . .	6,232	1,520	—	—
<b>Total non-current liabilities . . . . .</b>	<b>8,832</b>	<b>4,690</b>	<b>2,914</b>	<b>2,523</b>
Trade and other payables . . . . .	3,453	3,172	4,057	3,149
Current portion of long-term debt . . . . .	109	—	—	—
Five-year RUR bonds, series 1 . . . . .	—	3,153	3,088	—
<b>Total current liabilities . . . . .</b>	<b>4,726</b>	<b>7,608</b>	<b>8,013</b>	<b>3,886</b>
<b>Total equity and liabilities . . . . .</b>	<b>32,196</b>	<b>30,741</b>	<b>29,049</b>	<b>21,080</b>

## Cash Flow Data

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR) (unaudited)		(in millions of RUR)		
Net cash provided by operating activities	1,071	1,076	2,168	4,864	3,711
Net cash used in investing activities	(2,127)	(1,054)	(3,048)	(8,380)	(4,357)
Net cash provided by financing activities	1,280	191	1,011	2,582	804

## Additional (non-IFRS) Financial Information (unaudited)

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
Adjusted Revenue <sup>(1)(2)</sup>	7,469	6,355	13,262	17,806	13,270
Adjusted Operating Expenses <sup>(1)(3)</sup>	6,687	5,753	11,588	12,882	10,581
EBITDA <sup>(1)(4)</sup>	1,902	1,786	3,963	7,211	4,493
EBITDA Margin <sup>(1)(5)</sup>	19.1%	23.1%	24.2%	35.2%	33.6%
Adjusted EBITDA Margin <sup>(1)(6)</sup>	25.5%	28.1%	29.9%	40.5%	33.9%
Adjusted Operating Margin <sup>(1)(7)</sup>	10.5%	9.5%	12.6%	27.7%	20.3%

(1) Adjusted Revenue, Adjusted Operating Expenses, EBITDA, EBITDA Margin, Adjusted EBITDA Margin and Adjusted Operating Margin are non-IFRS measures presented as the supplemental measures of our operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any of them in isolation, or any combination of them, as a substitute for analysis of our results as reported under IFRS. See "Presentation of Financial and Related Information".

(2) Adjusted Revenue is calculated as total revenue less third-party charges relating to integrated logistics services.

### Reconciliation of revenue to Adjusted Revenue

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
Total revenue	9,942	7,720	16,400	20,494	13,375
<i>Minus</i>					
Third-party charges relating to integrated logistics services	2,473	1,365	3,138	2,688	105
<b>Adjusted Revenue</b>	<b>7,469</b>	<b>6,355</b>	<b>13,262</b>	<b>17,806</b>	<b>13,270</b>

(3) Adjusted Operating Expenses is calculated as operating expenses less third-party charges related to integrated logistics services.

### Reconciliation of operating expenses to Adjusted Operating Expenses

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
Total operating expenses	9,160	7,118	14,726	15,570	10,686
<i>Minus</i>					
Third-party charges relating to integrated logistics services	2,473	1,365	3,138	2,688	105
<b>Adjusted Operating Expenses</b>	<b>6,687</b>	<b>5,753</b>	<b>11,588</b>	<b>12,882</b>	<b>10,581</b>

(4) EBITDA is defined as profit for the period before income tax, interest expense and depreciation and amortisation.

**EBITDA Reconciliation**

	<b>Six months ended</b>		<b>Year ended 31 December</b>		
	<b>30 June</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in millions of RUR)</b>		<b>(in millions of RUR)</b>		
Profit before income tax . . . . .	315	154	768	4,558	2,735
<i>Plus</i>					
Interest expense . . . . .	473	491	945	499	31
Depreciation and amortisation . . . . .	<u>1,114</u>	<u>1,141</u>	<u>2,250</u>	<u>2,154</u>	<u>1,727</u>
<b>EBITDA</b> . . . . .	<u><b>1,902</b></u>	<u><b>1,786</b></u>	<u><b>3,963</b></u>	<u><b>7,211</b></u>	<u><b>4,493</b></u>

(5) EBITDA margin represents EBITDA divided by total revenue.

(6) Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.

(7) Adjusted Operating Margin is defined as operating income divided by Adjusted Revenue.

## RISK FACTORS

*An investment in the Securities involves a high degree of risk. Prospective investors should consider carefully, among other matters, the risks set forth below and the other information contained elsewhere in this Prospectus prior to making any investment decision with respect to the Securities. Any of the risks described below, individually or together, could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities. The risks described in this Prospectus are not the only risks we face. Additional risk factors not currently known or which are currently deemed immaterial may also have a material adverse effect on us, our business, financial condition, results of operations, future prospects and the trading price of the Securities.*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

***Our results of operations and financial condition have been and could continue to be adversely affected by a decline in container transportation volumes resulting from a deterioration in economic conditions.***

We are dependent on the level of containerised trade and the demand for rail transportation services in Russia, which are significantly influenced by the general economic conditions in Russia and trends in certain key economic sectors. Specifically, container transportation volumes in Russia strongly correlate with the GDP and industrial production in such sectors of Russia's economy as automotive, fast moving consumer goods, non-ferrous metals, construction, machinery, chemicals and pulp and paper products, as well as with export and import volumes. Prior to the fourth quarter of 2008, Russian GDP had experienced strong growth, increasing in constant prices from RUR 15,059 billion in 2005 to RUR 18,603 billion in 2008, according to Rosstat, which also caused rail container transportation volumes to increase by a compound annual growth rate ("CAGR") of 13 percent between 2005 and 2008, according to A.T. Kearney. However, beginning from the fourth quarter of 2008, the Russian economy experienced a sharp decline in GDP and industrial production as a result of the global economic downturn. Likewise, international trade, and particularly import volumes, were significantly adversely affected by the overall decline in consumer demand in Russia and the weakening of the Rouble against the US dollar.

As the leading provider of railway and intermodal container transportation services in Russia, we have been significantly affected by the decline in industrial production, consumption and international trade. The global economic downturn impacted our customers, including car manufacturers, pulp producers and consumer goods companies, causing a decline in demand for railway container transportation services. For example, railway container transportation volumes decreased by 22 percent in 2009 compared with 2008, measured in TEUs, according to A.T. Kearney. This decline had a significant adverse effect on our revenue and operations in the relevant period. In addition, as a result of the global economic downturn, import container flows significantly decreased. This decrease in transportation flows caused an increase in our empty runs, because, in many cases, we did not have customers' cargo for the return trip of containers and/or flatcars from these destinations. To address increased price competition and support demand for our container transportation services, between the fourth quarter of 2008 and the first half of 2009, we significantly reduced prices for our services, which also contributed to a decline in our revenue and operating margins. Moreover, during the same period, we allowed a greater number of customers to defer their payments for our services, which had an adverse effect on our operating cash flows. The global economic downturn also had an adverse effect on our financing costs. See "*— We may be unable to obtain financing for our capital expenditure programme on commercially acceptable terms, if at all*".

Although railway container transportation volumes began to recover in the first quarter of 2010, there can be no assurance that our container transportation volumes will quickly return to pre-downturn levels. If economic uncertainty and depressed demand for container transportation services continue, our revenue will continue to be adversely affected, which, in turn, will have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***The container transportation industry is cyclical and depends on the economic condition of certain industries, which may result in adverse fluctuations in the demand for our services and the price at which we are able to sell such services.***

The container transportation industry is cyclical in nature because the industries in which a large proportion of our customers operate, such as the automotive, construction, machinery and equipment and chemicals industries, are cyclical in nature and sensitive to changes in general economic conditions, which can result in adverse fluctuations in the demand for and price of our services. In particular, the demand for container transportation services in Russia generally correlates with macroeconomic fluctuations in the Russian economy, but can also be affected by regional and global economic conditions and local regulation. For example, Russian localisation requirements in respect of the assembly plants of foreign car manufacturers located in Russia could affect import transportation volumes of

components and hence our transportation volumes. Moreover, the container transportation market has greater cyclicality than the overall cargo transportation market (including oil, coal and iron ore) and is more closely correlated with consumer spending than industrial production. The prices of our services are influenced by many factors, including local, regional and global demand for the products of our customers. Sales of our customers largely depend on the economic conditions and consumer spending capacity, thus, our sales are subject to the upswings and downturns relating to such industries. Therefore, economic downturns affecting the industries that we service could have a greater adverse effect on us than on companies in other economic sectors, such as natural resources or staple goods.

Adverse fluctuations in the demand for our services, or in the prices for our services, may result in increased costs, increased investment requirements, reduced revenue or general uncertainty in the container transportation industry, any of which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our business depends on Russian Railways for infrastructure and locomotive services it provides.***

As a significant portion of our total revenue is derived from rail-based container shipping services, we depend on Russian Railways to provide reliable railway infrastructure and locomotive services. Russian Railways is a natural monopoly with respect to the Russian public railway infrastructure and has a dominant position in Russia in the provision of locomotive services. Revenue from our rail-based container shipping services, integrated logistics services, and freight forwarding and logistics services, which represented 32 percent, 44 percent and 5 percent of our revenue in the first half of 2010, respectively, involve using railway infrastructure owned by, and locomotive services provided by, Russian Railways.

The rail infrastructure and related assets owned and operated by Russian Railways, particularly its rail network and locomotives, have generally not been adequately maintained or modernised since the dissolution of the Soviet Union. While Russian Railways has recently made substantial investments to modernise the rail infrastructure, further implementation of maintenance and modernisation projects involves many potential risks and uncertainties and requires substantial additional expenditures which may be possible only in favourable market conditions and with the support of the Russian government. There can be no assurance that the age or insufficient funding and maintenance of a substantial part of the Russian railway network and other infrastructure operated by Russian Railways will not lead to accidents or other material disruptions of our business, including delivery delays, significant decreases in container and flatcar turnover rates, and/or an increase in our costs of doing business, any of which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We have a large market share in the provision of container transportation and related services, which may subject us to adverse regulatory interference in our operations.***

As the leading railway container transportation company in Russia, we are subject to the restrictions of Russian antimonopoly law. See “*Regulation of Railway Transportation in Russia — Competition law*”. The FAS (the Russian antimonopoly authority) included us in the federal register of companies holding over a 35 percent market share (the “**FAS Register**”) in the market for (i) provision of flatcars for domestic railway transportation of containers for distances over 1,000 kilometres (under one transportation document, such as a way-bill) and (ii) provision of containers for domestic railway transportation. Because we are included in the FAS Register, we are subject to certain antimonopoly requirements. In particular, we must comply with stricter merger control rules and may be subject to a closer scrutiny from the FAS. As a result, other parts of our business may be subject to antimonopoly regulation.

If another market participant or a customer files a claim with the FAS alleging that we have abused our market position, or if the FAS determines so during one of its regular inquiries, the FAS may investigate and formally recognise us as a dominant entity that has abused its dominant position in any of the markets described above. Regional branches of FAS in several Russian regions have already determined that we are a dominant entity in providing terminal services. The FAS may also impose binding orders or fines on us for the abuse of a dominant position. Such binding orders may require us to enter into service agreements on prescribed terms or otherwise restrict our business activities which may negatively impact our profitability ability to do business. The amount of fines the FAS could impose on us may be significant because under Russian law, such fines will be calculated as a percentage of our annual proceeds from the respective services performed (or goods sold). To date, the FAS has investigated our activities many times and in a number of cases tried to impose a binding order restricting our business activities or a fine on us for various alleged antimonopoly violations, including refusal to provide containers or flatcars or setting high prices for our services. In each case, we successfully appealed the FAS

decisions in court and did not have to comply with restrictions imposed by the FAS or pay any fines. There can be no assurance that in the future we will not be subject to fines or other sanctions imposed by the FAS or that the court will always uphold our position when we appeal a relevant decision.

Furthermore, at the time of our incorporation, the FAS issued an order requiring us to provide our containers, flatcars and regulated terminal services to all customers on a non-discriminatory basis. Accordingly, so long as containers and/or flatcars, or terminal capacities are available, we are not permitted to refuse to provide them, and cannot give preferential treatment to any particular customer, such as to our key customers. If we experience a dearth in container and/or flatcar, or terminal capacity and, as a result, are unable to promptly provide services to our key customers, they may seek to use other service providers, which could have an adverse effect on our revenue.

If the FAS imposes any fines on us or we become subject to more stringent antimonopoly regulation or are otherwise restricted in our operations by the FAS due to our significant market share, any or all of these may adversely affect our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our container terminals are “Sites for Common Use” and are subject to regulation, which may restrict our flexibility in using them.***

We received our container terminals as a contribution to our share capital by Russian Railways. Each contributed terminal was designated as a Site for Common Use. See “*Regulation of Railway Transportation in Russia — Regulation of Container Terminals*”. As a result of our terminals being Sites for Common Use, we are required to provide certain services, such as loading and unloading, and storage of containers on a non-discriminatory basis. If we experience a dearth of terminal capacity as a result of providing these required services and are unable to promptly provide services to our key customers, they may seek to use other service providers, which may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We are required to transfer our shareholders’ register to another registrar, which may result in the suspension of trading or restrictions on transferability of our shares, or result in technical errors that could lead to the loss of information relating to the shareholders or their title to the shares.***

Under Russian law, the ownership of shares in a Russian joint stock company is recorded by entries in its shareholders’ register. A joint stock company may maintain the register itself or use the services of a licensed registrar, provided that if the number of shareholders is greater than 50, a joint stock company is required by law to have its register of shareholders maintained by a licenced registrar. Our current registrar is OJSC Moscow Central Depository (“MCD”). Following an ongoing legal dispute between MCD and the FSFM, MCD’s licence to provide registry services has been revoked effective 1 February 2011. On 20 October 2010, the Board of Directors resolved to terminate the contract with MCD effective from 24 December 2010 and to engage CJSC The Registrar society STATUS (“STATUS”) as the new registrar of the Company. In accordance with Russian law, the register of shareholders must be transferred from MCD to STATUS on 24 December 2010.

The process of transferring our shareholders’ register to the new registrar may be costly and time consuming and may result in the temporary suspension of trading in our shares and/or restrictions on transferability of our shares at the time of the transfer due to technical reasons. In addition, technical errors may arise during the transfer of the shareholders’ register, which may lead to the loss of information about the shareholders and their title to the shares. Although we and the registrar would remain jointly liable to our shareholders under Russian law for any such errors made by the registrars which affect the shareholders, such protections may be inadequate to fully compensate the shareholders or the holders of the GDRs for their losses incurred as a result of the registrar’s errors.

In addition, there can be no assurance that the newly engaged registrar will not have its licence suspended or revoked in the future. If trading in our shares is suspended, any technical errors occur during the shareholders’ register transfer process, or STATUS’ licence is revoked, there could be a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our business, financial condition and results of operations depend on tariffs set by the Federal Tariff Service.***

Russian Railways, as the sole operator of the Russian railway network, charges us and other private rail operators tariff-regulated prices for the use of its railway infrastructure and the provision of locomotive services. The Federal Tariff Service (the “FTS”) regulates these tariffs. While our prices are not regulated by the FTS, the tariffs set by the FTS for Russian Railways’ freight transportation services have an indirect impact on the prices we charge customers for our services. An increase in tariffs would cause Russian Railways to increase the tariff- regulated

prices that it charges us and other private rail operators for the use of its infrastructure and locomotives. We, and other private rail operators, would typically pass this price increase on to our customers. If we, however, increased our prices to compensate for the increase in tariffs at higher rates than our competitors or our competitors kept their prices unchanged, our container transportation services could become less economically attractive as compared with those of our competitors. Also, an increase in our prices, could result in some of our customers' switching to other modes of transportation, such as trucks, on certain routes, where such use of an alternative transportation mode is economically attractive.

We also pay Russian Railways empty run charges for the use of its infrastructure and locomotives. An increase in tariffs would result in an increase in empty run charges payable by us to Russian Railways, and thus our empty run costs would rise. Accordingly, a significant increase in tariffs set by the FTS could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We may be subject to increasing competition from other transportation and logistics companies and other modes of container transportation.***

The Russian rail transportation industry, including container transportation, is becoming increasingly competitive. While we maintain the leading position in the market, we face competition from a number of large transportation companies as well as smaller freight forwarding and logistics companies transporting containers by rail and trucks and providing related services. Because there is a large number (over 1,000) of small logistics and freight forwarding companies, in particular those transporting cargo, including containerised cargo, by trucks, this market is highly competitive. We also face competition in terminal services in certain transportation hubs, such as the Moscow and Saint-Petersburg regions, among others, from a number of terminal services providers. See “*Business — Competitive Environment*”. Although we face limited competition in railway container transportation on certain routes from private operators, including Russian Troika (a joint venture between Russian Railways and FESCO), and Russian Railways currently does not otherwise compete with us directly, there can be no assurance that it would not establish another subsidiary or a joint venture which will compete with us in the future.

We may face increased competition in the future from existing and new competitors, while we, due to our status as a dominant entity in the market, may continue to be required to provide certain container transportation and terminal services on a non-discriminatory basis, which may result in economic inefficiencies and lower profit margins compared with our competitors. See “— *We have a large market share in the provision of container transportation and related services, which may subject us to adverse regulatory interference in our operations*”. In addition, it is possible that, due to sector consolidation, larger competitors may emerge, threatening our market share and our position as a price-setter, which could adversely affect our profitability. We may also face increased competition in Russia from container transportation operators from other CIS countries. If in the future rail operators in other CIS countries significantly increase the number of flatcars which they operate, we may be unable to successfully compete with them, and thus to expand and develop our international operations.

Although rail transport continues to be the leading mode of containerised freight transportation in Russia in terms of volumes carried, currently it is subject to increasing competition from other modes of transport. The Russian government is developing a plan to improve Russian highway system to foster short- and medium-distance truck transport. There are also various initiatives for the development of sea, river and air transport, which in certain cases may be seen as cheaper or faster alternatives to rail transport. While most of these initiatives are long-term projects, should they succeed, the level of competition in the container transportation industry could significantly increase. Significant changes in the structure and geography of Russian industry and demand for imports or exports may also influence the volumes and direction of container transportation, which may be less favourable to us and more favourable to other modes of transport.

If other rail-based container operators intensified competition with us, or if other modes of transport became more competitive with rail transportation, or if competition levels in the transportation sector otherwise increased, it could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our IFRS financial statements are prepared on the basis of standalone financial statements of our companies which are prepared in accordance with the local accounting legislation, and the preparation of our IFRS financial statements is not fully automated, which may adversely impact our ability to prepare our IFRS financial statements in a timely manner.***

Our IFRS financial statements are prepared on the basis of standalone financial statements of our companies of the prepared in accordance with the local accounting legislation (the “**Statutory Financial Statements**”). The preparation of our IFRS financial statements involves, first, the transformation of the Statutory Financial Statements



of each of our companies into IFRS financial statements through accounting adjustments and, second, a consolidation of standalone IFRS financial statements of our companies.

In 2008, we established a separate division responsible for the preparation of our IFRS financial statements and began to use an automated system designed to prepare our IFRS financial statements. We used this system to prepare our IFRS financial statements for the first six months ended 30 June 2010. However, not all parts of the automated system have been put in operation and certain functions relating to the preparation of our IFRS financial statements are performed manually, which could cause delays in the preparation of our IFRS financial statements. A significant delay in the preparation of our IFRS financial statements could have an adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that we will be unable to comply with our obligations as a company with securities admitted to the Official List.

***Our management information systems and internal control systems may be less developed than those of similar companies in more developed markets.***

Our management information systems and financial reporting functions may be less developed in certain respects than those of similar companies in more developed markets or publicly traded companies and may not provide our management with the same amount and/or quality of information. We do not prepare management accounts and budgets under IFRS, which results in less predictability in relation to our annual IFRS financial statements. Our existing management information systems may not be as effective as those of transportation and railroad companies in more developed markets in detecting any negative trends in the operations in a timely manner.

Our independent auditors have noted three material weaknesses in the system of internal control relating to:

- the process of preparation of the consolidated IFRS financial statements;
- lack of appropriate segregation of duties for hiring and determining salaries for top level management personnel; and
- deficiencies in the system of maintaining the tax base of fixed assets for deferred tax calculation.

Such weaknesses, in the auditor's opinion, may cause financial statements to be materially misstated, however these weaknesses did not affect respective reports of our independent auditors on the IFRS financial statements.

We have taken, and continue to take, steps to improve our accounting systems and internal controls, including implementation of an accounting software package and tax accounting system, and adopting a key personnel remuneration policy. However, our inability to maintain and develop effective management information systems may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

Notwithstanding the above, this risk factor should not be taken as implying that either we or the Company will be unable to comply with its obligations as a company with securities admitted to the Official List.

***Our controlling shareholder may have interests that conflict with those of the holders of the Securities.***

Immediately prior to the Offering, 85 percent of our ordinary shares were held by our controlling shareholder, Russian Railways. Immediately following the Offering, the controlling shareholder will continue to own at least 50 percent plus one ordinary share of our issued and outstanding share capital. For information regarding the controlling shareholder, see "*Principal and Selling Shareholders*". As such, Russian Railways will continue to be able to exercise significant control over us, such as by electing the majority of the members of the Board of Directors, which may elect or remove the CEO, approve significant transactions, dividends and also determine the outcome of a number of other important corporate matters.

Because Russian Railways is a natural monopoly wholly owned by the state and controlled by the Russian government, the decisions of Russian Railways may be influenced by factors other than maximisation of the economic efficiency and profitability of our operations, including macro-economic, social and political factors. Our controlling shareholder may therefore pursue interests that are inconsistent with, and may even be adverse to, those of other shareholders, which may negatively impact our ability to implement the business strategy and achieve our objectives, and may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our operating assets are aging and may require repair or replacement, and the renewal of our fleet of flatcars will continue to require significant expenditures.***

We have an extensive fleet of containers and flatcars which we obtained from Russian Railways either upon our formation or subsequently. A significant portion of these assets was approaching the end of their useful life at the time when we started our operations, which has required, and will continue to require, in the short- to medium-term significant expenditures for the acquisition of replacement assets or the refurbishment of the aging assets. As of 30 June 2010, the average age of our 40-foot and 60-foot flatcars was approximately 16 years and 24 years respectively, while the expected service life of a flatcar is approximately 32 years before it must either be replaced or refurbished in order to extend its service life.

At the time we began operations as an independent entity in 2006, we did not have any 80-foot flatcars, which tend to be most effective for import container transportation. An increase in the use of such flatcars is expected to be one of the key drivers of growth in container transportation and handling market, according to A.T. Kearney. In order to support our market share, meet customer demand and improve fleet efficiency, we will be required to continue making significant investments in the expansion of our fleet of 80-foot flatcars.

In general, our assets require significant maintenance and repair expenditures. In 2009, in order to reduce repairs and maintenance expenditures during the recent global economic downturn, we postponed repairs of a portion of our rolling stock and containers, and thus the portion of assets requiring repairs increased as a percentage of our total assets. In the short- to medium-term, as container transportation volumes increase, we will be required to conduct repairs and maintenance on the rolling stock and containers for which repairs and maintenance were postponed in 2009, thereby incurring increased expenditures in subsequent periods. Any additional costs incurred, unplanned repairs or delays in service may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We may be unable to obtain financing for our capital expenditure programme on commercially acceptable terms, if at all.***

We require significant capital inflows to finance the expenditures required to maintain, modernise and increase our flatcar and container fleet and our terminal facilities, as well as to finance our working capital needs. Our ability to raise capital on commercially acceptable terms depends on the general condition of the international and the Russian capital markets and the overall economic conditions in Russia. While our current capital expenditure programme does not provide for raising debt at least for the next three years, there can be no assurance that, if debt financing becomes necessary, we will be able to obtain debt or equity financing on commercially acceptable terms, if at all.

In 2009, we received international credit ratings from certain major rating agencies (“Ba2” by Moody’s Investors Service Ltd and “BB+” by Fitch Ratings Limited). These ratings, among other things, are dependent on those assigned to the Russian Federation and Russian Railways, as well as on the overall economic and financial conditions in Russia. If the rating agencies downgrade either Russian Railways’ ratings or the Russian Federation’s ratings, our ratings and in turn our ability to obtain debt or equity financing may be adversely affected.

If we fail to generate sufficient funds from operating cash flows or obtain sufficient debt or equity financing on commercially acceptable terms, we may have to delay or abandon our asset maintenance, modernisation and/or development plans, which may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Failure to meet customer expectations could damage our customer relationships and business reputation.***

Our customers rely on us for high-quality transportation and logistics services, timely pick up and delivery of customer cargo and availability of containers and flatcars. Timely delivery of cargo to its destination is key to our customer relationships, particularly with respect to our customers using parts, raw material and other supplies sourced elsewhere, because their cargo delivery requirements are crucial for their manufacturing processes. We in turn depend on third-party providers for the provision of rail infrastructure and locomotive traction and third-party trucking services to provide high quality services to our customers. A significant delay in the delivery of customer cargo, even if caused by third parties, could lead to significant business interruption, and/or material losses for such customer who, as a result, may seek to use other service providers, which could lead in turn to a significant loss of our business and/or damage to our business reputation.

In addition, many of our customers in the last few years have been relying on us not only for the transportation of their cargo by rail but also for provision of complex logistics solutions to ensure fast and effective delivery in accordance with customer business needs and production cycle. Failure to meet customer expectations may lead to

dissatisfaction of the customers with our services and lead to a loss of customer business and/or impairment of our business reputation, any of which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We depend on customs authorities for the timely provision of our transportation services and delivery of goods to our customers.***

We depend on customs authorities for the timely provision of our transportation services and delivery of goods to our customers. Imported goods transported in our containers require customs inspection and clearance that may be performed with unreasonable delays due to reasons beyond our control. Also, certain types of goods may be subject to increased levels of customs control at the discretion of customs authorities (including screening, unloading, search and physical inspection), which may result in additional delays in delivery time.

Certain provisions in customs regulations are subject to varying interpretation and inconsistent enforcement, and therefore, we may experience uncertainties with respect to the customs clearance process. Any delays in customs clearance caused by customs authorities also result in additional expenses for storage of goods during the clearance process. Considerable delays in customs clearance, and detention of containers and flatcars for prolonged periods, could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Some of our operations depend on obtaining and maintaining licences, consents and permits necessary for the operation of our business.***

Some of our operations, such as the transportation of containers with hazardous cargo, depend on obtaining, maintaining and renewing necessary licences, permits and regulatory consents, which may be valid for a defined time period, may exist subject to limitations and could be withdrawn in certain circumstances. There can be no assurance that such licences, permits and regulatory consents will be granted, renewed or continue in force and, if so, on which terms. In addition, certain types of cargo, such as foodstuffs or hazardous goods may be subject to additional regulation, which, if violated, may result in the suspension of permit to ship such cargo until the violations are corrected. Failure to maintain necessary licences, permits or consents, or any suspension or termination thereof could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Our insurance policies may be insufficient to cover all risks which can arise in the ordinary course of business.***

We do not carry insurance for our containers and rolling stock, except for the leased flatcars, because the manufactures or repair depots are liable for the costs and expenses resulting from defects in the relevant assets, while Russian Railways or shippers would usually be liable for costs arising out of damages to containers while transporting them. In addition, we do not carry insurance policies for risks that are typically insured in some Western markets, such as major accidents. Thus, there can be no assurance that our current insurance policies would be sufficient to cover all of our losses to the same extent as may be common in some more developed Western markets.

Furthermore, we generally do not carry third-party liability insurance except to the extent required by law. There can be no assurance that we will not be liable to third parties in connection with accidents affecting the cargo carried by us or handled at our terminals. We are also not insured against any adverse effects from interruptions or failures of our information systems. If an uninsured event were to occur and we could not pass the costs and expenses to parties liable for such event, we could be required to make significant payments for which we would not be compensated, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

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

Rail operators may be subject to accidents and derailments, both as a result of operational failure and due to the nature of the cargoes being transported. Although under Russian law liability for such accidents or derailments is likely to be attributed to the owner of the cargo being transported and/or Russian Railways as the owner and operator of the railway infrastructure, we may be held liable if it is proved that such accident or derailment was caused by our fault, and there can be no assurance that we would always be able to attribute responsibility to, and recover from, a third party in connection with such accidents or derailments. A major rail accident or derailment could also result in damage or loss of our rolling stock and may also disrupt our services. In such circumstances, we may not be able to

restore operations in a timely fashion. An extensive negative publicity concerning any accident or derailment caused by us could also have a material adverse effect on our reputation and the attractiveness of our services in the future. Accordingly, the inability to restore operations in a timely fashion after a major accident or derailment could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We could incur significant costs for violations of applicable environmental laws and regulations.***

Our business involves transportation of cargo, including hazardous cargo. We also deal with environmentally sensitive and hazardous substances, in particular, at our flatcar repair depots, all of which subjects us to comprehensive health and safety regulations. Any accidents involving such substances may result in our liability if such accidents are found to have resulted from our fault, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We rely heavily on information systems to operate our business, and any failure of these systems could have an adverse effect on our operations.***

Our business is dependent on the successful and uninterrupted operation of our information systems as well as their integration with the information systems of Russian Railways. We rely on these systems for complex logistical, dispatching and tracking tasks critical for our customers' transportation needs and essential for our business. For example, the scheduling of container deliveries and our accounting functions depend on the coordination between our and Russian Railways' information systems. Although we have not experienced any significant failures or interruptions with our information systems in the past, there can be no assurance that such a failure or interruption will not occur in the future.

Failures or interruptions in our information systems may also result in costly delays in the processing of customer orders and, as a result, in the transportation of customer cargo and lead to a loss of customer business. Our hardware and software may be damaged by human error, natural disasters, power interruption, sabotage, computer viruses and other events. System failures could also reduce the attractiveness of our services and could cause our customers to choose alternative providers or means of transportation. Such system-related problems could lead to increased expenses and/or decreased revenue. Our operations may also be vulnerable to failures of the information systems of Russian Railways and other companies with which our operations are closely linked. For example, we use AS ETRAN, a centralised electronic document management system of Russian Railways, to process container transportation orders, and have recently started to use a digital signature to prepare waybills. A failure of AS ETRAN system could therefore significantly delay processing of customer orders and have a negative impact on container delivery times.

In addition, we use proprietary rail transport and logistics software in order to ensure the efficiency and effectiveness of our transportation services. This software is either licensed to us and then customised to our needs, or delivered and maintained by third parties under service agreements. If our information systems fail or function with interruptions, or proprietary software fails, the licence for its use is withdrawn or invalidated or service agreements for its use are terminated or its use becomes commercially unattractive, due to the lack of technical support by the relevant developer or otherwise, and we are not able to obtain equivalent software or system, this may have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We may be unable to retain key personnel or attract and retain highly qualified personnel and may be adversely affected by wage increases and labour disruptions.***

Our business requires that our personnel have qualifications and skills not only in the area of their specialisation, such as engineering, sales and marketing or finance and accounting but also knowledge of specific features of our industry. Our managers are among the most experienced professionals in the Russian transportation industry, and, in particular, in the Russian railway and container transportation sectors. Many of them have previously worked for Russian Railways and were involved in our formation and our development as an independent business. The loss of the services of one or more of our key personnel could have a material adverse effect on our business and result in additional costs for us.

Our wage costs increased in the years prior to the global economic downturn. Although our payroll expenses decreased in absolute terms during the global economic downturn, wage costs are expected to continue to increase in an improved economic climate. In light of a general shortage of qualified personnel and the increasing level of competition in the Russian rail transportation market, we may need to increase the levels of employee compensation more rapidly than in the past to remain competitive. If we increase employee compensation, there can be no

assurance that we will be able to ensure a similar increase in the efficiency and productivity to justify the extra costs, or to pass on the extra costs to customers through increases in prices. If we fail to raise wages, we may be unable to recruit and retain a skilled workforce, which could hinder our ability to maintain our market position or execute our strategic goals. Any or all of these scenarios could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Expansion through acquisition entails certain risks, and we may experience difficulties in integrating and managing new acquisitions.***

We may expand our operations through acquisitions. For example, in June 2010, the Board of Directors approved the acquisition of a 67 percent equity stake in KDTS, a leading private operator of cargo handling terminal facilities and a provider of cargo transportation services in Kazakhstan. See “*Business — Assets — Terminals — Joint Venture with Kazakh Railways*”. Our ultimate goal in acquiring shares in KDTS is to form a joint venture with Kazakh Railways, to jointly operate certain cargo handling terminal facilities (including the facility at the Dostyk rail station, a key transportation hub located on the Kazakh border with China) as well as to jointly operate flatcars and transport containers in Kazakhstan. The acquisition of KDTS shares and the formation of a joint venture with Kazakh Railways are currently being negotiated, but there is no certainty as to whether or when these transactions may be completed. Should these transactions be completed, our investment will be subject to certain risks relating to Kazakhstan. For example, the laws and regulations of Kazakhstan relating to foreign investment, among others, are still developing, and uncertainties or changes in the law could have an adverse effect on our investment. In addition, doing business in Kazakhstan entails certain political risks, realisation of which may result in our investment generating lower returns than we initially expected, or in the loss of the investment.

The pursuit of an acquisition strategy entails certain risks, including the failure to conduct appropriate due diligence on the target’s operations and/or financial condition, the overvaluation of the target and thus the payment of consideration greater than the acquisition’s market value, the incurrence of significantly higher than anticipated financing related risks and operating expenses, and the discovery of larger than anticipated or previously undisclosed liabilities.

In addition, we may experience problems in integrating acquisitions into our business and managing them optimally. These risks include failing to effectively assimilate and integrate the operations and personnel of an acquired company into our business, failing to install and integrate all necessary systems and controls, conflicts between majority and minority shareholders, hostility and/or lack of cooperation from the acquisition’s management and the potential loss of the acquisition’s customers. Moreover, the broader disruptions in operations and the strain on management resources, including the diversion of attention from management’s normal day-to-day business that often occurs in conjunction with an acquisition, may impose significant costs on us. If any risks associated with an acquisition materialised, it could have an adverse effect on our expansion plans, business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We engage and will continue to engage in transactions with related parties that may present conflicts of interest, potentially resulting in the conclusion of transactions on less favourable terms than those that could be obtained in arm’s-length transactions.***

In the course of our business, we have engaged, and continue to engage, in transactions with related parties and entities under common control. For more information on these related parties, including the transactions with these parties, see “*Related Party Transactions*” on page 120. The Auditor’s report contains an emphasis of matter, drawing attention to Note 25 of the Audited Financial Statements, which discloses significant concentrations of transactions with related parties.

Although we have in place policies and procedures for dealing with related party transactions, which are generally “interested party transactions” as a matter of Russian law and thus are subject to approval by disinterested members of the Board of Directors or disinterested shareholders (see “— *In the event our past transactions, or future transactions that require an approval in accordance with Russian law, are successfully challenged, they could be invalidated and unwound*”), there can be no assurance that the policies and procedures will preclude the conclusion of transactions on terms not determined by market forces and less favourable than those that could be obtained in arm’s-length transactions. Such transactions, if entered, could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***A significant increase in prices for our assets in a short period of time, as well as inflation, could increase our cost base.***

The Russian economy has in the past been characterised by high rates of inflation. The annual inflation rate was 8.8 percent in 2009, 13.3 percent in 2008 and 11.9 percent in 2007, according to Rosstat. While the measures taken by the Russian government and a further decline in general economic activity helped to keep inflation in 2009 at a lower level than in the previous two years, it is generally expected that, as the industrial production and trade pick up following the end of the economic downturn, inflation may significantly increase. Accordingly, if high rates of inflation continue, there can be no assurance that we will be able to maintain or increase our margins to cover such cost increases.

In addition, prices for some of our assets may increase at a higher rate than inflation due to the growth in demand for such assets or increase in the raw materials used to manufacture them. For example, prices for flatcars have increased significantly since the beginning of this year due to the increase in the price for certain components of a flatcar. Some of our costs, such as materials, repairs and maintenance costs, and, in particular, wages, are sensitive to rises in general inflation rates in Russia. Due to competitive pressures, if our costs increase in line with price levels generally, we may be unable to pass along the increased costs to our customers, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We may be exposed to currency exchange rate risks.***

Most of our agreements to provide services to foreign companies are denominated in foreign currencies, and thus, a portion of our revenue and expenses are also denominated in foreign currencies. To the extent that our foreign currency-denominated revenue and expenses differ, we are exposed to the effects of currency fluctuations between foreign currencies and the Rouble.

The global economic downturn and general economic conditions in Russia have resulted in the devaluation of the Rouble against the US dollar by up to 25 percent between August 2008 and August 2010, and by up to 50 percent between August 2008 and February 2009. The Russian government used significant amounts of its international currency reserves to support the Rouble, but has cautioned that it may be unwilling to continue such support in the future.

Although our current debt portfolio is Rouble-denominated, if we were to seek financing from non-Rouble-denominated sources, we would be subject to further foreign currency exchange rate risk on borrowings that are denominated in a currency other than the Rouble. Any such loss resulting from a fluctuation in foreign currency exchange rates could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We have not independently verified information we have sourced from third parties.***

In preparing the Prospectus, we have relied on and referred to information from various third-party sources, including Russian Railways and certain private companies and institutes, international organisations and governmental agencies, and we have relied on the accuracy of this information without independent verification. For example, a significant portion of the information concerning our competitors and the freight rail industry, including the container industry, has been derived from publically available sources published by third parties. This information and statistics may at times be less complete or reliable than those of some of the more developed market economies of North America and Europe, as well as be produced on a basis that differs from those used in Western countries. Any discussion of matters relating to Russia herein is therefore subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

***In the event our past transactions, or future transactions that require an approval in accordance with Russian law, are successfully challenged, they could be invalidated and unwound.***

Under Russian law, certain transactions defined as “interested party transactions” require approval by disinterested directors or disinterested shareholders. We engage in numerous transactions that require approval as an “interested party transaction”. However, the provisions of Russian law defining “interested party transactions” are subject to different interpretations and some transactions which we do not consider or approve as “interested party transactions” may be determined to be such by a court. Therefore, there can be no assurance that our application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to our business.

Our minority shareholders may vote against transactions with “interested parties”, which require shareholders’ approval, or there may be an insufficient number of disinterested shareholders to constitute a quorum required for the approval of such transactions. In the event our minority shareholders do not approve transactions with “interested parties” or successfully challenge them, we could be limited in our operational flexibility in connection with such transactions.

Under Russian law, a company must obtain the approval of its board of directors to dispose of or acquire assets, the value of which exceeds 25 percent of the company’s asset value, or the approval of its shareholders if the value of the assets to be acquired or disposed of exceeds 50 percent of the company’s asset value. Shareholders voting against or not voting on such disposal or acquisition are entitled to have the company buy out their shares at the price set by an independent appraiser.

While we generally endeavour to obtain all corporate approvals required under Russian law prior to consummating transactions, there can be no assurance that all such corporate approvals have been duly obtained or will be obtained in the future. We often seek approval of the transactions by the Board of Directors’ or shareholders after such transactions have already been consummated. If such transactions are not subsequently approved, they may be declared null and void, and unwound to the extent possible. For example, at the recent annual general shareholders’ meeting held on 23 June 2010, a number of “interested party transactions” were not approved, including a transaction relating to our providing services to Russian Railways for a total amount of up to RUR 200 million per year, because the majority of disinterested shareholders abstained from voting. These transactions were approved at the subsequent shareholders’ meeting on 14 September 2010, however, there can be no assurance that transactions important for our business, will always be approved in the future by new minority shareholders.

If any of our transactions are not properly approved, then these transactions may be declared null and void and, if possible, unwound, which could have a material adverse effect on our business, financial condition, results of operations and the trading price of the Securities.

***We are required to engage another financial advisor and our failure to do so in a timely manner could result in the delisting of our shares from RTS and MICEX.***

Under Russian listing regulations, we are required to engage a financial adviser to monitor our compliance with applicable information disclosure requirements and to confirm the completeness and accuracy of information disclosed by us in our quarterly reports (except for the information, completeness and accuracy of which is confirmed by an auditor and/or an appraiser) for as long as our shares are listed on the quotation list “I” of the Russian stock exchanges. Currently, LLC Financial Company Russian Investment Club (the “Russian Financial Adviser”) acts as our financial adviser in connection with the listing of our shares on RTS and MICEX. On 1 November 2010, the Russian Financial Adviser notified us that it proposes to terminate the relevant financial advisory agreement between us and the Russian Financial Adviser with effect from 1 December 2010 in connection with the Russian Financial Adviser’s intention to voluntarily surrender the licence allowing it to act as a financial adviser on the Russian securities market. Under Russian listing regulations, a Russian stock exchange has the right to delist the securities of a Russian issuer in the event the agreement between the issuer and its financial adviser for the services outlined above is terminated and the issuer fails to enter into a new agreement with another financial adviser within a period of one month from the date of termination of the agreement with the previous financial adviser. We do not anticipate any difficulties or delays with engaging another financial adviser to replace the Russian Financial Adviser and expect to do so before the agreement with the Russian Financial Adviser is terminated and in any case within the timeframe allowed by the Russian listing regulations. However, any failure to do so may result in the delisting of our shares from RTS and MICEX, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

#### **RISKS RELATING TO RUSSIA**

Most of our business is conducted and our assets are located in Russia. There are risks associated with investments in an emerging market and, specifically, Russia, as set out below.

***Emerging markets such as Russia are subject to different risks than in more developed markets, including significant economic, political, social and legal and legislative risks, and the global economic downturn could have a particularly significant adverse effect on Russia as an emerging market and could disrupt our business, as well as cause the value of an investment in the Securities to suffer.***

Prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is

suitable only for sophisticated investors who are familiar with and fully appreciate the significance of the risks involved in investing in emerging markets.

Investors should be aware that emerging markets such as Russia are subject to different risk than more developed markets, including in some cases significant economic, political and social, and legal and legislative risks. Investors should also note that emerging economies are subject to rapid change and that the information set forth herein may become outdated relatively quickly. For example, the Russian markets have been highly volatile during the global economic downturn beginning in the second half of 2008. Such volatility has caused market regulators to temporarily suspend trading on the MICEX and RTS stock exchanges multiple times and the MICEX and RTS stock exchanges have experienced significant overall declines from the beginning of the global economic downturn in 2008. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy.

Companies that operate in emerging or developing markets can face severe liquidity constraints if foreign funding sources are withdrawn. For example, in November 2009, a major Dubai-owned investment company announced a restructuring of its outstanding debt, which prompted a significant sell-off in the global financial markets. In April 2010, a sovereign debt crisis in Greece led to a substantial depreciation of the Euro and further affected investors' confidence in the global markets. The availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence as a whole and so any factor that impacts investor confidence in one market (for example, a decrease in credit ratings or state or central bank intervention) could affect the cost and availability of funding for entities in other markets. Financial turmoil in another emerging or developing market or in Russia could have an adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

### **Political Risks**

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

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the ineffectiveness or failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, as well as to unrest by some social and ethnic groups.

Political conditions in Russia were highly volatile in the 1990s, as evidenced by frequent conflicts among executive, legislative and judicial authorities, which negatively affected Russia's business and investment climate. For example, six different prime ministers headed the Russian government between March 1998 and May 2000.

Vladimir Putin, a former Russian President who is currently Russia's Prime Minister, generally increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. The most recent State Duma elections held on 2 December 2007 resulted in an increase in the share of the aggregate vote received by United Russia and other political parties allied with the Russian President, bringing that percentage to more than two thirds. President Dmitry Medvedev assumed power from Vladimir Putin in May 2008. Although a significant degree of continuity has been maintained between the two administrations due, in large part, to the appointment of Vladimir Putin as Russia's Prime Minister, President Medvedev may take a different approach to reforms and to the state's foreign and domestic policies in the future.

While the Russian political system and the relationship between President Medvedev, the Russian government and the State Duma currently appear to be stable, future political instability could result from declines in the overall economic situation, including any deterioration in standards of living, as well as from the results of elections of the State Duma and the Russian President in 2011-2012. Shifts in governmental policy and regulation in Russia may be less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. On 28 September 2010, due to a loss of trust, President Medvedev dismissed the mayor of Moscow, Yuri Luzhkov, who served as the mayor of Moscow for over 18 years. Current and future changes in the Russian government, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments relating to Russia and as such on our business, financial condition, results of operations, future prospects and the trading price of the Securities.



***Deterioration of Russia's relations with other countries could result in a significant decrease in demand for securities of Russian companies and/or adversely affect the value of investments in Russia.***

Emerging markets such as Russia are subject to heightened volatility based on economic, military and political conflicts. For example, a military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines in the Russian stock exchanges and the deterioration of Russia's relations with certain other countries for a considerable period of time. Moreover, the relationship between Ukraine and Russia, and Belarus and Russia, have recently been strained over a variety of issues. The emergence of any new or escalated tensions in the region could negatively affect the Russian economy and other countries that are involved. Moreover, the emergence of such tensions or conflicts may lead to reduced liquidity, trading volatility and significant falls in the price of listed securities relating to Russia, including the Securities, which could have a material adverse effect on our ability to raise debt or equity capital in international capital markets and on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Political and social conflicts or instability could create an uncertain operating environment and adversely affect the value of investments in Russia.***

Russia is a federation of 83 sub-federal political units, consisting of republics, regions (*oblasts*), territories (*krais*), cities of federal importance, an autonomous region and autonomous districts (*okrugs*), some of which exercise considerable autonomy in their internal affairs pursuant to arrangements with the federal authorities. In practice, the division of authority between federal, regional and local authorities is, in many instances, unclear and contested. Lack of consensus between the federal, regional and local authorities often resulted in the enactment of conflicting legislation at various levels and may lead to political instability in the future. In particular, conflicting laws have been enacted in areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as some transactions consummated pursuant to them, have in the past been challenged in the Russian courts, and such challenges may occur in the future. The Russian political system is vulnerable to tension and conflict between federal, regional and local authorities. This lack of consensus creates uncertainties in the operating environment in Russia, which could hinder our long-term planning efforts and prevent us from effectively and efficiently carrying out our business strategy.

In the past, ethnic, religious and historical divisions have, on occasions, given rise to tensions and, in some cases, military conflicts and terrorist attacks. The conflict in one of the republics in southern Russia, for example, brought normal economic activity within that region to a halt for a period of time and negatively affected the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia, including Moscow. Most recently, on 29 March 2010, suicide bombings were carried out on the Moscow metro. In the future, the emergence of any new or escalation of existing tensions, military conflicts or terrorist activities could have significant political consequences, including the imposition of a state of emergency in some regions or all of Russia. Moreover, any military conflicts and/or terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce of Russia, lead to reduced liquidity, trading volatility and significant reductions in the price of listed Russian securities or securities relating to Russian business, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

## **Economic Risks**

***Economic instability in Russia could have an adverse effect on our business and investment plans.***

From 2000 through the first half of 2008, Russia experienced growth in its GDP, higher tax collections and increased stability of the Rouble, providing a certain degree of economic soundness. However, the Russian economy has been adversely affected by the global economic downturn that began in the second half of 2008, which manifested itself through extreme volatility in debt and equity markets, reduction in foreign investment and sharp decreases in GDP in Russia and around the world. Any of the following risks, which the Russian economy has experienced at various times in the past and some of which have already occurred during the downturn may have a significant adverse effect on the investment climate in Russia and, in turn, may burden our operations:

- significant declines in its GDP;
- high levels of inflation;
- increases in, or high, interest rates;
- sudden price declines in the natural resource sector;
- instability in the local currency market;

- high levels of Russian government debt relative to GDP;
- lack of reform in the banking sector and a weak banking system providing limited liquidity to Russian enterprises;
- a significant decline in reserves of the CBR;
- the continued operation of loss-making enterprises due to the lack of effective bankruptcy proceedings;
- the use of fraudulent bankruptcy actions in order to take unlawful possession of property;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black- and grey-market economy;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

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

In late 2008, at the outset of the economic downturn, the Russian government announced plans to institute more than US\$200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. However, these measures have had a limited effect and the Russian economy has not yet fully recovered from the economic downturn. The impact of the global economic downturn on the Russian economy has led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in the disposable income of the general population, a crisis of bank liquidity, a significant devaluation of the Rouble against the US Dollar and Euro, sharp decrease in industrial production and the rise of unemployment.

In December 2008, in the context of a global economic downturn, the international credit rating agency Standard & Poor's Financial Services downgraded Russia's foreign currency sovereign credit rating, which reflects an assessment by such agency that there is an increased credit risk that the Russian government may default on its obligations, from BBB+/A-2 to BBB/A-3, in large part due to the impact of the economic downturn that began in the second half of 2008. Moody's Investors Service, another international credit rating agency, changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch Ratings Ltd downgraded its long-term sovereign rating for Russia from BBB+/A-2 to BBB/A-3 stating that the lowering of the ratings on Russia reflects risks associated with the sharp reversal in external portfolio and other investment flows, which has increased the cost and difficulty of meeting the country's external financing needs. In April 2010, the Russian government issued US\$5.5 billion of bonds rated Baa1 by Moody's and BBB by Fitch Ratings Ltd. In September 2010, Fitch revised Russia's sovereign credit rating outlook from stable to positive, with the country's issuer default ratings in foreign and national currencies affirmed at BBB. According to Fitch's statement, the outlook revision reflects progress in lowering the inflation rate and in transitioning to a more flexible exchange rate as well as growth in foreign exchange reserves, which should potentially lower the financial vulnerability of the Russian economy. Although the Russian economy continues to stabilise, if any of the major international credit rating agencies issue a negative credit assessment, foreign investment may decline and the cost of borrowing for the Russian government may increase.

In addition, since Russia produces and exports large quantities of crude oil, natural gas, coal, steel and other commodities, its economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas, coal and other commodities on the world market, which reached record high levels in mid-2008 and subsequently fell dramatically by the end of 2008 and in early 2009 as a result of the economic downturn. Oil prices have since

rebounded to US\$75-85 per barrel but remain extremely volatile. Further price volatility may continue to negatively influence the Russian economy.

Any deterioration of general economic conditions or financial crisis in Russia could adversely influence the economic stability and consumer demand for various products and services, including, among others, those provided by us. Volumes of goods transported by rail depend significantly on commodity prices, the demand for consumer goods and overall economic situation in Russia. In case of a recession or a slowdown in the economy, the transportation industry may suffer more significantly than many other sectors, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***The physical infrastructure in Russia, including the rail network, is aged and underinvested.***

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

Road conditions throughout Russia are also poor, with many roads not meeting modern quality requirements. Some areas within Russia, particularly those surrounding ageing nuclear power plants, are potentially hazardous. According to Rosstat, rail's share in Russia's total transportation turnover (excluding pipelines) has grown from 70 percent in 1992 to 85 percent in 2009. As one of the alternatives to roads, additional stress has been put on the Russian rail infrastructure for the transportation of freight. The Russian government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The poor condition or further deterioration of Russia's physical infrastructure may harm the national economy, disrupt access to communications and add costs to doing business in Russia and interrupt business operations. This could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities. See also "*— Risks Relating to our Business and Industry — Our business depends on Russian Railways for infrastructure and locomotive services provided by it*".

***The Russian banking system remains underdeveloped, with a limited number of creditworthy Russian banks, and another banking crisis could place liquidity constraints on our business.***

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application.

During the last 12 years, the banking system has experienced several downturns. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. The recent global economic downturn has led to the collapse of several Russian banks and to significant liquidity shortages for others. Profitability of most Russian banks has been adversely affected. As a result, the Russian government has injected substantial funds into the banking system.

Some international banking sector analysts have reported that certain Russian banks do not meet international banking standards, and the transparency of the Russian banking sector still lags behind internationally accepted norms in certain respects. The imposition of more stringent regulations or interpretations by the CBR could lead to determinations of inadequate capital, other regulation violations and the insolvency of some banks.

Prior to the global economic downturn, there was a rapid increase in lending by Russian banks, which may have been accompanied by deterioration in the credit quality of the borrowers. In addition, a robust domestic corporate debt market is leading to Russian banks increasingly holding large amounts of Russian corporate Rouble-denominated bonds in their portfolios, which is further deteriorating the risk profile of Russian bank assets. The serious deficiencies in the Russian banking sector, combined with the deterioration in the credit portfolios of Russian banks, may result in the banking sector being more susceptible to market downturns or economic slowdowns, including due to Russian corporate defaults that may occur during any such market downturn or economic slowdown. There are currently only a limited number of creditworthy Russian banks, most of which are located in Moscow. We hold funds primarily in OJSC TransCreditBank (“**TransCreditBank**”). The bankruptcy or insolvency of TransCreditBank could adversely affect our business. Furthermore, any shortages of funds or other disruptions of the banking system experienced by Russian banks from time to time could also have a material adverse effect on our ability to complete planned developments or obtain financing required for our planned growth. Another banking crisis, the bankruptcy or insolvency of the banks which hold our funds, or another disruption in the banking system could result in the loss of our income for several days or affect our ability to complete banking transactions in Russia and thus could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

### **Social Risks**

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

The past failures of the Russian government and many private enterprises to pay full salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest increased support for centralised authority and a rise in nationalism. For example, in January 2005, a new law took effect that replaced long-standing benefits (including free use of public transportation, free medicine and heavily subsidised utilities) for pensioners, the disabled, war veterans and certain other categories of Russian citizens with cash payments. Groups of pensioners and political organisations held massive demonstrations across Russia in protest against the new law and temporarily blocked various transportation routes. In view of these demonstrations, certain Russian cities and regions restored, in part, free public transportation and increased cash benefits.

Last year, as a result of large-scale lay-offs and failures to pay salaries on time due to the economic downturn, there were a number of social protests, particularly in cities relying on a single industry or enterprise to provide employment to a majority of people in those cities. For example, in June 2009, workers of Pikalevsky Alumina Plant blocked the highway demanding payment of overdue wages. The Russian government managed to stop the protests, but there can be no assurance that such protests will not occur in the future.

Moreover, deteriorating economic conditions and turmoil in the financial markets in Russia, such as the recent economic downturn, may result in high unemployment, the failure of state and private enterprises to pay full salaries on time and the failure of salaries and benefits generally to keep pace with the increasing cost of living. Labour and social unrest could have negative political, social and economic consequences, including increased nationalism, support for re-nationalisation of property, expropriation of or restrictions on foreign involvement in the economy of Russia and increased violence. Any of these could have an adverse effect on investor confidence in Russia’s social environment and the value of investments in Russia, which could restrict our operations and lead to a loss of revenue, and could otherwise have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

#### ***Crime and corruption could disrupt our ability to do business.***

Political and economic changes in Russia in recent years have resulted in significant dislocations of authority. The local and international press have reported a rise in significant organised criminal activity, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, the local and international press have reported that there are high levels of corruption in Russia, including the bribing of officials for the purpose of obtaining rights to supply goods or services to the state or major purchasers or for the purpose of initiating investigations against competitors by Russian government agencies. Press reports have also described instances in which Russian government officials have engaged in selective investigations and prosecutions to further the interests of the state and individual officials. Illegal activities and negative publicity associated with such activities could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

## Legislative and legal risks

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

Risks associated with the Russian legal system include, to varying degrees, the following:

- inconsistencies between: (i) federal laws, (ii) decrees, orders and regulations issued by the Russian President, the Russian government and federal ministers, and (iii) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- the relative unavailability of Russian legislation and court decisions in a manner that facilitates understanding of such legislation and court decisions;
- the relative inexperience of jurists, judges and courts in interpreting newly adopted legislation and complex commercial arrangements;
- substantial gaps in the legal framework due to delays in or the absence of implementing regulations for certain legislation;
- a lack of judicial independence from political, social and commercial forces;
- alleged corruption within the judiciary and Russian governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders and international arbitration awards;
- a high degree of discretion on the part of Russian governmental authorities, leaving significant opportunities for arbitrary and capricious Russian government action;
- the enactment of laws and regulations that reflect the interests of particular business groups that could adversely impact their competitors; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, the relatively recent enactment of many laws in the context of the rapid evolution to a free market economy and the lack of consensus about the aims, scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies and anomalies in the Russian legal system. The enforceability and underlying constitutionality of more recently enacted laws are in doubt and many new laws remain untested. Moreover, the courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure.

In addition, there is no assurance that court decisions favourable to us and our operations will not be reconsidered in the future. For example, in accordance with a recent resolution adopted by the Supreme Arbitration Court of the Russian Federation, a judgement challenged in the course of supervisory proceedings can be reconsidered in light of discovery of new facts, provided that since the delivery of such judgement, application of legal provisions on which it is based has been changed by a resolution of the Supreme Arbitration Court of the Russian Federation. As a result of such change, we may not be able to benefit from a previous application or court practice used in our favour, which could have a material adverse effect on our business, financial condition, results of operations and trading price of the Securities.

Any or all of these weaknesses could affect our ability to enforce our legal rights in Russia, including rights under our contracts, or to defend ourselves against claims by others, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

### ***The law relating to Russian corporate governance and control may be applied inconsistently and is difficult to enforce.***

We are registered in Russia and hold our assets in Russia. Accordingly, the rights of our shareholders are subject to the mandatory rules of Russian corporate law. Corporate governance standards in Russia are not as developed as corporate governance standards in Western European countries or the United States and generally provide less protection for investors. In particular, corporate governance practices in Russia have suffered from a lack of transparency and informational disclosure (both to the public and to shareholders), a lack of independence of directors and insufficient regulatory oversight and protection of shareholders' rights. Despite recent amendments to

the Federal Law No. 208-FZ “On Joint Stock Companies” dated 26 December 1995, as amended (the “**Joint Stock Companies Law**”), minority shareholders possess only a limited ability under Russian law to protect their rights against majority shareholders.

Minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to put the shares held by that shareholder to the company if that shareholder voted against or did not participate in voting on certain types of actions. Minority shareholder rights include the right to appeal the decisions of the management bodies of a company in court and the right to hold accountable the members of such management bodies. Companies are also required by Russian law to obtain the approval of disinterested shareholders for certain transactions with interested parties. See “*Description of Share Capital and Certain Requirements of Russian Legislation — Description of Share Capital*” for a more detailed description of certain of these protections. While these protections are generally similar to the types of protections available to minority shareholders in US corporations or UK companies, in practice corporate governance standards for many Russian companies have not always been applied as in other countries with developed corporate governance practices, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. Shareholders of some companies have also suffered as a result of fraudulent bankruptcies initiated by hostile creditors. While the Joint Stock Companies Law provides that shareholders owning not less than 1.0 percent of a company’s stock may bring an action for damages on behalf of that company, Russian court practice in relation to such lawsuits is limited. Russian law does not provide for class action litigation in the same way as in the United States, for example, though it is possible to have several co-claimants in one suit. Accordingly, investors’ ability to pursue legal redress against us may be limited.

In addition, as with other areas of Russian law, the Russian courts’ interpretation of corporate law concepts is at times inconsistent. See “— *Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia*” and “— *Lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating and enforcing claims could prevent us or investors from obtaining effective redress in court proceedings*”. For example, there are conflicting interpretations as to when shareholder approval of a transaction is required for a “major transaction” or, alternatively, when the transaction may be validly authorised by the company’s officers. Accordingly, we may be subject to an increased burden in seeking to comply with all reasonably possible interpretations of such requirements or may find itself in formal non-compliance with such requirements.

Disclosure and reporting requirements, anti-money laundering legislation as well as anti-fraud legislation, have only recently been enacted in the Russian Federation. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies and shareholders is also relatively new and is not well developed. Violations of disclosure and reporting requirements or breaches of fiduciary duties to us or to our shareholders, as well as uncertainties in the application of certain corporate law provisions, could materially adversely affect our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Regulation of Russian capital markets may not provide sufficient protection to us and our shareholders, including the holders of Securities.***

Russia’s regulation and supervision of its securities markets, financial intermediaries and issuers is less developed than in Western Europe and in the United States. The several different agencies regulating the Russian securities market include the FSFM, the Ministry of Finance, FAS, the CBR and various professional self-regulatory organisations, which sometimes lack coordination, resulting in contradictions in regulatory actions. Moreover, Russian corporate and securities regulations can change rapidly, which may adversely affect our ability to conduct transactions in securities. While some important areas are subject to virtually no supervision, the regulatory requirements imposed on Russian issuers in other areas could result in delays in conducting securities offerings and in accessing capital markets. It is often unclear whether or how regulations, decisions and letters issued by the various regulatory authorities apply to us. Moreover, the FSFM has recently introduced a number of regulations relating to offerings of shares and foreign securities in and outside of Russia, including offerings of existing shares, which remain largely untested and subject to varying interpretations. Any challenges of such regulations or transactions consummated pursuant to them could have an adverse effect on the Offering and our ability to effect similar equity offering in the future. From time to time, we may not be in full compliance with Russian securities law reporting requirements. Violation of these reporting requirements can result in the imposition of fines or difficulties in registering subsequent share issuances. As a result, we may be subject to fines or other enforcement measures, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

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

Russian law provides for certain requirements that should be complied with in the course of establishing or reorganising a Russian company, or during its operation. Certain provisions of Russian law may allow a court to order the liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during the formation of such entity or during its operation; for example, if it has or has had net assets lower than its share capital. In certain cases the registering state authority may liquidate a Russian legal entity even in the absence of a court decision. Some Russian courts, in deciding whether or not to order the liquidation of a company, have looked beyond the fact that the company failed to comply fully with all applicable legal requirements and have taken into account other factors, such as the financial standing of the company and its ability to meet its tax obligations, as well as the economic and social consequences of its liquidation. This judicial approach is supported by a decision of the Constitutional Court of the Russian Federation that held that even repeated violations of law may not serve as a basis for the involuntary liquidation of a company, and instead consideration should be given to whether the liquidation would be an appropriate sanction for such violations. Although we may have failed to comply fully with all the applicable legal requirements (for example, during our formation Russian Railways failed to pay 50 percent of the Company's share capital in accordance with statutory requirements), we believe that we should not be subject to liquidation on such grounds because none of the possible violations were significant, caused any damage to any person, or have had any other negative consequences. However, weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. Therefore, investors should not rely on our interpretation of Russian law. If a Russian court or a governmental authority takes a position unfavourable to us, it could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***Lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating and enforcing claims could prevent us or investors from obtaining effective redress in court proceedings.***

Russia is a civil law jurisdiction where judicial precedents generally have no binding effect on subsequent decisions. The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is less than complete. The court system is understaffed and underfunded, judges and courts are generally inexperienced in the areas of business and corporate law and most of the court decisions are not readily available to the public. Enforcement of court judgements can, in practice, be difficult. The Russian judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. Additionally, the press has often reported that court claims and governmental prosecutions are influenced by political aims and private interests. We may be subject to such claims and may not be able to receive a fair hearing or to enforce any judgements in our favour. Such factors make judicial decisions in Russia difficult to predict and effective redress uncertain, which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

***We may be subject to arbitrary governmental action.***

Russian government authorities have a high degree of discretion in Russia and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Possible state actions include withdrawal of licences, interference with or nullification of contracts and transactions entered into in connection with privatisations, invalidation of share issuances and registrations, sudden and unexpected tax audits, criminal prosecutions and civil actions. In particular, the former Ministry for Taxes and Levies and its successor, the Federal Tax Service has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective.

There can be no assurance that our business activities will not be affected by the tax audits undertaken by the Federal Tax Service. Federal and local government entities have also used common defects in matters surrounding the documentation of financing activities as pretexts for court claims and other demands to invalidate such activities and/or to void transactions, often for political purposes. Standard & Poor's, a provider of independent credit ratings, has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". Arbitrary, selective or unlawful state action, if directed at us, could lead to the loss of key licences, termination of contracts, civil litigation or criminal proceedings, any of which could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

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

The Russian government has enacted legislation to protect foreign investment and other property against expropriation and nationalisation. If such property is expropriated or nationalised, legislation provides for fair compensation. However, there is no assurance that such protections would be enforced. Expropriation or nationalisation of all or a portion of our business would have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

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

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

**RISKS RELATING TO THE SECURITIES*****An investment in the Securities carries a high degree of risk and many factors could have a material adverse effect on the value of the Securities.***

An investment in the Securities is speculative and carries a high degree of risk. Potential investors must be prepared to bear the risk of a total loss of their investment. A material adverse effect on the value of the Securities could arise from many factors, such as a change in the liquidity in the market for the Securities, changes in securities analysts' financial estimates and projections, the operating and price performance of our competitors and other comparable companies, announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments, regulatory actions that affect our business, general conditions in the transportation industry and economic conditions in Russia. The market value of a GDR may also vary considerably from its underlying net asset value, and could decline below the offer price per GDR, which will be determined based on the results of the bookbuilding exercise conducted by the Managers. In addition, the Russian stock markets where the underlying Ordinary Shares will be listed have from time to time experienced extreme price and volume volatility. For example, during the recent economic downturn, price and volume volatility in the second half of 2008 resulted in a suspension of trading on some Russian stock exchanges, in some cases for several days. This has also negatively affected the market of securities listed in Russia. Such conditions, if they were to reoccur, in addition to the effect of the general economic and political conditions on markets, could significantly adversely affect the liquidity and market price for the Securities.

***Because the Depositary may be considered the owner of the Ordinary Shares represented by the GDRs, such Ordinary Shares may be seized or arrested in legal proceedings in Russia against the Depositary, and the Depositary may be subject to various requirements of Russian law.***

Many jurisdictions, including Cyprus, the United Kingdom and the United States, distinguish between legal owners of securities, such as a depositary, and the beneficial owners of securities, such as the GDR holders. In these jurisdictions, shares held by a depositary on behalf of the holders of depositary receipts should not be subject to seizure in connection with legal proceedings against the depositary that are unconnected with the relevant shares.

Russian law may not, however, recognise a distinction between legal and beneficial ownership, and it may only recognise the rights of the Depositary in whose name the shares are held. Thus, in proceedings brought against the Depositary, whether or not related to the Ordinary Shares represented by the GDRs, Russian courts may treat those underlying Ordinary Shares as the assets of the Depositary, and therefore open to seizure or arrest.

If a lawsuit seeking the seizure or arrest of the Ordinary Shares underlying the GDRs were to be successfully initiated in the future against the Depositary, and the Shares represented by the GDRs were to be seized or arrested, GDR holders would be likely to lose their rights to such underlying Shares and the GDR holders could lose all of their investment in the GDRs.

***There are limits on the number of Ordinary Shares that may be deposited in the GDR programme.***

We have received permission from the FSFM for up to 2,484,037 of the Ordinary Shares, or approximately 17.9 percent of our current issued share capital, to be circulated abroad through depositary receipt programmes. There can be no assurance that we will be able to obtain approval for a deposit of a greater number of Ordinary



Shares in the GDR programme than for which we currently have approval. As a result, it may not be possible to deposit Ordinary Shares in the GDR programme in order to receive GDRs.

We have applied to the UK Listing Authority (the “UKLA”), and the London Stock Exchange for a listing and admission to trading of up to 28,314,060 GDRs. If this application is approved, the total number of Ordinary Shares that may be deposited in the GDR programme will be limited to an aggregate of 2,831,406 Ordinary Shares.

***We may decide not to pay dividends in the future, which could have a material adverse effect on the trading price of the Securities.***

Our current dividend policy contemplates the payment of annual dividends from our net profit calculated under RAS. Under Russian law, dividends are subject to a decision of shareholders, based on recommendations of the board of directors. In determining the amount of any dividends to propose to our shareholders for future periods, the Board of Directors takes into account our business prospects, capital expenditure, cash requirements, financial requirements and other business and regulatory considerations. See “*Dividend Policy*”. Although we declared dividends on a regular basis for the years between 2006 and 2009, we may be unable or elect not to declare dividends in the future. For instance, the general shareholders’ meeting, in which Russian Railways will have a majority of the voting rights, may decide to retain all profits earned or may decide against declaring dividends if it determines that the cash flows and debt capital we raised is insufficient for our investment programme. Should the general shareholders’ meeting or the Board of Directors decide against declaring dividends, the trading price of our Securities may be adversely affected.

Historically, we paid dividends in Roubles. In the event we elect to pay dividends in a currency other than Roubles, current Russian legislation permits the conversion of Roubles into US dollars, although the ability to convert Roubles into US dollars would be subject to the availability of US dollars in Russia’s currency markets. Although there is an existing market in Russia for the conversion of Roubles into US dollars, including the interbank currency exchange and over-the-counter and currency futures markets, further development of such markets is uncertain.

***Foreign investment restrictions are subject to change, and if damages result from additional restrictions they may have an adverse effect on the price of securities.***

Laws and regulations, particularly involving taxation, foreign investment and trade, title to securities and transfer of title that are applicable to our activities can change quickly and unpredictably (sometimes with retroactive effect) in a manner far more volatile than in developed market economies. For example, Russian Federal Law No. 57-FZ “On Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defence and State Security”, which came into effect in May 2008 (the “**Foreign Investments in Strategic Sectors Law**”), establishes procedures for obtaining an approval by foreign investors to make acquisitions in Russia’s strategic sectors. This law is part of an overall tightening of restrictions governing acquisitions and disposals of strategic assets in Russia. As we hold a licence for activities in the area of ionising radiation use, in particular its generation, in accordance with the law and applicable Russian regulations we are considered as a business entity of strategic importance for the national defence and state security (a “**Strategic Entity**”). Under the Foreign Investments in Strategic Sectors Law, where a non-Russian entity/individual, or a Russian entity belonging to a group which includes a non-Russian entity, proposes to acquire more than 50 percent of the voting shares in a Strategic Entity, or gains the right to appoint its chief executive officer or to elect more than 50 percent of its board of directors or management board, such an acquisition would require prior governmental clearance under this law. Furthermore, where a foreign government, international organisation or entities under their control proposes to acquire more than 25 percent of the voting shares in a Strategic Entity or a right to block decisions of the management bodies of such an entity, any such acquisition would require prior clearance under the Foreign Investments in Strategic Sectors Law as well. See “*Description of share capital and applicable Russian law — Government control of share transfers — Strategic Entity*”.

Although we do not believe that any of the above restrictions may have a significant impact on ability of investors and third parties to purchase the Securities in the Offering and any time after the Offering, any future lowering of the applicable thresholds or similar changes in the legislation that become applicable to us, could have a material adverse effect on our business, financial condition and results of operations.

***Non-Russian resident GDR holders may not be able to benefit from double tax treaties in relation to Russian withholding taxes on dividends paid via the Depositary.***

Under Russian law, dividends paid to non-Russian resident holders of the GDRs, both legal entities (or organisations) and individuals, will generally be subject to Russian tax at a rate of 15 percent. This tax may be reduced under the provisions of the relevant double tax treaty between Russia and the country in which the holder of the GDRs is resident for tax purposes. However, in the absence of any specific provisions in the Russian tax

legislation with respect to the concept of beneficial ownership and because of the fact that under Russian law the Depository (and not holders of the GDRs) is the legal holder of the underlying Ordinary Shares, there are uncertainties in relation to taxation of dividends payable to holders of the GDRs. Therefore, there is a risk that the treaty relief may be unavailable to non-Russian resident GDR holders.

There have been several interpretations of the tax provisions from the Ministry of Finance addressing the beneficial ownership concept in Russia for double tax treaty purposes. In 2005, 2006 and 2007, the Ministry of Finance of the Russian Federation repeatedly expressed the opinion that the holders of depository receipts should be treated as the beneficial owners of the dividends paid on underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax treaty residence of the holders of the GDRs is duly confirmed. However, in the absence of official guidance of general applicability addressing how a GDR holder should demonstrate its beneficial ownership in the underlying shares, these interpretations are subject to uncertainty and unpredictable positions of tax authorities and arbitrage courts. Therefore, there is no clearly established procedure to withhold tax based on the tax residency of the beneficial owner.

In addition, the Russian tax authorities may disallow application of relief under the double tax treaty between Russia and the Depository's country of residence. Therefore, we may be unable to apply reduced rates provided by the relevant double tax treaty and will be obliged to withhold income tax at a maximum rate of 15 percent from dividend payments made to the Depository. From a practical perspective, it may not be possible for the Depository to collect residence confirmations from all GDR holders and submit such information to us, thus we may be unaware of the exact amount of income payable to each particular holder and its residence.

In addition, there are uncertainties and practical difficulties for obtaining advance double tax treaty benefits for individuals. With respect to individuals who are non-resident holders of the GDRs, we may also be obligated to withhold income tax at the rate of 15 percent from dividend payments made to the depository. We will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favour of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of the GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the applicable international double tax treaties subject to certain tax treaty procedures. Obtaining the relevant approvals from the tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15 percent tax withheld from payment of dividends to the depository, as the tax authorities are unlikely to treat the 15 percent withholding tax as a tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to an effective tax rate of up to 45 percent on dividends accrued on shares held on deposit (i.e., 15 percent income tax withheld by us plus 30 percent Russian personal income tax payable by a non-resident individual on a self-assessed basis). See "*Taxation — Non-resident investors — Taxation of dividend income*".

***Non-resident holders may be subject to Russian tax withheld at source on disposal of the Securities through or to certain Russian payers.***

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are organisations which own the shares issued by a company ("**the Issuing Company**"), such as the Shares, as well as financial instruments derived from such Shares, such as the GDRs, may be subject to Russian income tax to be withheld by the Issuing Company of such income if immovable property located in Russia constitutes more than 50 percent of the Issuing Company's assets (i.e. such capital gains are considered income received from a Russian source). It should be noted that the determination of whether more than 50 percent of the Issuing Company's assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian law and regulations in this respect are not entirely clear. There can be no assurance that immovable property owned by the Issuing Company and located in Russia will not constitute more than 50 percent of the Issuing Company's assets as at the date of the sale of the Securities by non-residents. If the gains are treated as income from a Russian source, international double tax treaties may nonetheless provide protection from Russian taxation.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies performing its activities in Russia via a permanent establishment. Gains arising from a sale of the foregoing types of securities on foreign stock exchanges (where these securities are listed) by non-resident holders that are organisations are not treated as income from a Russian source, and are not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a foreign stock exchange,

gains arising from a sale of the GDRs on that foreign stock exchange by non-resident organisations should not be subject to taxation in Russia.

Capital gains arising from the disposition of the foregoing types of securities and derivatives outside of Russia by foreign holders of Securities who are individuals not resident in Russia for tax purposes will not be considered a Russian source of income and will not be taxable in Russia. Gains arising from disposition of the foregoing types of securities and derivatives in Russia by foreign holders of Securities who are individuals not resident in Russia for tax purposes are subject to personal income tax. See “*Taxation*”.

***GDR holders may have limited recourse against us, our directors and our senior management because we generally conduct our operations outside the United Kingdom and the majority of our current directors and all our senior management reside outside the United Kingdom.***

Judgments rendered by a court in any jurisdiction outside Russia will generally be recognised by courts in Russia only if an international treaty providing for recognition and enforcement of judgments in civil or commercial cases exists between Russia and the country where the judgment is rendered or a federal law is adopted in Russia providing for the recognition and enforcement of foreign court judgments. As at the date of this Prospectus, there is no treaty between the United Kingdom and the Russian Federation providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters, and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. These limitations may deprive the GDR holders of effective legal recourse for claims related to their investment in the GDRs.

Our presence outside the United Kingdom may limit the legal recourse of the GDR holders against us, our directors and senior management. We are incorporated under Russian laws. Most of our directors and all of our senior management reside outside the UK, principally in Russia. A substantial portion of our assets and assets of our directors and senior management are located outside the United Kingdom, principally in Russia. As a result, GDR holders may not be able to effect service of process within the United Kingdom upon us, our directors and senior management, or to enforce United Kingdom court judgments obtained against us, our directors and senior management, in jurisdictions outside the United Kingdom. In addition, it may be difficult for GDR holders to enforce, in original actions brought in courts in jurisdictions outside the United Kingdom, liabilities obtained in accordance with the UK securities laws.

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

GDR holders will have no direct voting rights with respect to the Ordinary Shares represented by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the deposit agreement dated 15 September 2010 between us and the Depositary (the “**Deposit Agreement**”) and relevant requirements of English and Russian law (see “*Terms and Conditions of the Global Depositary Receipts*”). Therefore, there are practical limitations upon the ability of GDR holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders.

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

In order to exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares represented by the GDRs they hold. As a result of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of ordinary shares, and there can be no assurance that GDR holders will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. If the Depositary does not receive timely voting instructions or if the Depositary determines that it is not permissible under Russian law or it is reasonably impracticable to vote or cause to be voted the Ordinary Shares, such Ordinary Shares will not be voted. For further details, see “*Terms and Conditions of the Global Depositary Receipts*”.

Concern by GDR holders regarding these limits on voting rights in respect of the Ordinary Shares represented by GDRs could have a material adverse effect on the trading price of the Securities.

***Sales of additional shares or GDRs following the Offering may result in a decline in the price of the Securities.***

Sales, or the possibility of sales, by the Selling Shareholder or others of our current shareholders of a substantial number of GDRs or ordinary shares in the public markets following the Offering could have an adverse effect on the trading prices of the Securities as well as our ability to obtain further capital through an offering of equity securities. We, each of the Selling Shareholder and the European Bank for Reconstruction and Development (the “EBRD”) have agreed that, until the expiry of a period of 180 days from the Closing Date, neither it nor any person acting on its behalf will, without the prior written consent of the Joint Global Coordinators, sell, pledge or encumber the ordinary shares or, in our case, issue new ordinary shares.

Although we are not aware of an intention of Russian Railways to sell our ordinary shares following this Offering, Russian Railways could sell all, or a substantial portion of, our ordinary shares owned by it at any time following the end of the lock-up period subject to receipt of all the necessary corporate and governmental approvals. See “*Regulation of Railway Transportation in Russia*”. The sale of a substantial number of additional GDRs or ordinary shares by the Selling Shareholder or our other current shareholders following the end of the lock-up period or the issuance of new shares by us, or the possibility that these sales or issuances may occur, may result in a decline in the price of the Securities and investors may not be able to sell the Securities they purchased in the offering at or above the Offer Price or at all. Moreover, we may in the future issue new preferred shares or Securities that have rights, preferences or privileges senior to those of the ordinary shares which could negatively affect the price of the Securities. As a result, investors who purchase the Securities in the Offering, or Securities in the secondary market could lose all or part of their investment in such Securities.

***We are not subject to the same takeover protection as a company incorporated in the United Kingdom.***

As we are registered in Russia and GDRs representing our Ordinary Shares will be listed on a regulated market in the United Kingdom, the takeover protection regime applicable to us is more limited than that applicable to public companies incorporated in the United Kingdom. Any offer for GDRs will be subject to the provisions of the United Kingdom City Code on Takeovers and Mergers in respect only of consideration, disclosure requirements and procedural matters applicable to the offer, while Russian law will apply to such an offer in relation to substantive company law matters, such as whether such an offer would trigger a mandatory offer to all holders of GDRs. As at the date of this Prospectus, Russian law has requirements for such a mandatory offer to be made by a person acquiring 30 percent, 50 percent or 75 percent of a Russian company. See “*Description of Share Capital and Applicable Russian Law — Anti-takeover protection and share acquisition above certain thresholds*”.

***Holders of our Shares and GDRs may not be able to exercise their pre-emptive rights in relation to future issues of ordinary shares.***

In order to raise funding in the future, we may issue additional ordinary or preferred shares, including in the form of additional GDRs, which could result in the dilution of stakes held by existing shareholders. New shares may carry rights and preferences superior to those of the shares held by existing shareholders. Generally, existing holders of shares in a Russian company are in certain circumstances entitled to statutory pre-emptive rights for newly issued shares in that company as described in “*Description of Share Capital and Applicable Russian Law*”. However, holders of Securities in certain jurisdictions (including the United States) may face restrictions under relevant local law on their ability to exercise statutory pre-emptive rights for ordinary shares represented by GDRs. No assurance can be given that the exercise of pre-exemption rights by such shareholders will be permitted under applicable securities laws and/or that a future transaction will be structured to allow existing holders of the Securities to exercise their pre-emptive rights. New share issuances could have a material adverse effect on the interests of existing shareholders and GDR holders and the trading price of the Securities.

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

Prior to the Offering, there was no trading market for the Securities and, after the Offering, an active trading market may not develop. The liquidity of any market for the Securities depends on the number of holders of the Securities, the market for similar securities and other factors, including general economic conditions and our financial condition, performance and prospects, as well as the recommendations of securities analysts. As a result, we cannot be certain that an active trading market for the Securities will develop following the Offering or that it will be maintained.

If an active trading market for the Securities does not develop, investors may not be able to sell the Securities they purchased in the Offering at or above the Offer Price or at all. As a result, investors who purchase Securities in the Offering could lose all or part of their investment in the Securities.

***Shareholder rights provisions under Russian law may impose additional costs on us.***

Russian law provides that shareholders, including holders of the Securities, who vote against or who do not take part in voting on certain matters have the right to require that we purchase their ordinary shares at market value. The decisions that trigger this right to sell include: a reorganisation; approval by shareholders of a “major transaction”, which, in general terms, is a transaction involving property worth more than 50 percent of the book value of our assets as of the last reporting date; and any amendment of the charter that limits shareholder rights. Our obligation to purchase ordinary shares in these circumstances, is limited to 10 percent of our net assets, is calculated in accordance with the Russian accounting standards at the time the matter at issue is voted, which may be insufficient to satisfy all the requirements of the holders of the Securities.

**RISKS RELATING TO TAXATION**

**Taxation risks relating to Russia**

***Our business has a significant exposure to taxation in Russia.***

Generally, taxes, levies and contributions payable by Russian companies are relatively substantial and include *inter alia* corporate profits tax, VAT, property tax and social insurance contributions (replacing as of 2010 Russian unified social tax).

Over the past decade there have been significant changes to the Russian taxation system. Tax reform in the Russian Federation commenced in 1999 with the introduction of Part One of the Tax Code of the Russian Federation (the “**Tax Code**”), which sets general taxation guidelines. Since then, the Russian Federation has been in the process of replacing legislation regulating the application of major taxes such as corporate profits tax, VAT and corporate property tax with new chapters of the Tax Code. In particular, the chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the corporate profits tax and mineral extraction tax chapters came into force on 1 January 2002; the corporate property tax chapter of the Tax Code came into force on 1 January 2004; and the land tax chapter of the Tax Code came into force on 1 January 2005.

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

Russian tax legislation is also subject to frequent changes, which can sometimes result in the introduction of additional taxes. For example, starting from 1 January 2010, the unified social tax was replaced with direct mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund, and, following a one-year transition period during which the overall rate of the contributions will not exceed the maximum unified social tax rate of 26 percent, the overall rate will increase to 34 percent. Such measures could affect the overall tax efficiency of our operations and result in additional tax liabilities. Additional tax exposure could have a material adverse effect on our business, financial condition and results of operations.

There are no clear rules or implementation practice for distinguishing between lawful tax optimisation and tax evasion. See “— *Risks Relating to Russia — Risks Relating to Taxation — We may be deemed to receive unjustified tax benefits*”. In practice, Russian tax authorities often have their own interpretations of the tax laws and these interpretations rarely favour taxpayers, who often must resort to court proceedings against the tax authorities to defend their position. Court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be inconsistent or contradictory. Different interpretations of tax regulations exist both among and within Russian government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with other tax related documentation, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest for late payment.

Tax returns, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, which may impose fines, penalties and interest charges. Generally, tax audits may cover the taxpayer’s activities for a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted; however, previous tax audits do not completely exclude subsequent claims relating to a period that has already been audited.

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

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

Financial statements of Russian companies related to the same business group are not consolidated for tax purposes. Therefore, each of our Russian entities pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in our group. In addition, payments of intercompany dividends between two Russian entities are subject to a withholding tax of nine percent at the time they are paid out of profits (this rate may be reduced to zero percent if certain conditions are met, though this tax does not generally apply to dividends once they have already been taxed (with the exception of dividends received by Russian companies and taxed at the rate of zero percent (including dividends received from their foreign subsidiaries).

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

***We are subject to tax audits by Russian tax authorities which may result in additional liabilities.***

Tax returns in Russia, together with related documentation, are subject to tax audits covering a period of three calendar years immediately preceding the year in which the decision to carry out the audit is adopted. However, previous tax audits do not exclude subsequent claims relating to the audited periods because Russian tax law authorises higher-instance tax inspectorates to revise the results of tax audits conducted by subordinate tax inspectorates, and the tax authorities are allowed to carry out repeat on-site tax audits in connection with the restructuring or liquidation of a taxpayer or if the taxpayer resubmits an adjusted tax return based on which the amount of tax is reduced. Herewith, in 2009 there was a decision of the Constitutional Court of Russia stating that decisions of higher tax bodies that contradict with effective and non-disputed court decisions upon disputes between taxpayers and tax bodies performing initial tax audits should be considered unconstitutional.

The limitation of the tax audit period corresponds to the statute of limitations on the commission of a tax offence, which is also limited to three years from the date on which a tax offence was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

Nevertheless, based on current tax legislation, there may be cases where the limitation period may be extended beyond three years. See “— *Our business has a significant exposure to taxation in Russia*”. Thus, under recent changes to the Tax Code, effective 1 January 2007, the running of the limitation period for the imposition of sanctions must be suspended if a person who is called to account for a tax offence has actively obstructed the performance of an on-site tax audit and this has become an insurmountable obstacle to the performance of that audit and to the determination by tax authorities of the amounts of taxes payable to the budget system of the Russian Federation. Prior to these changes, on 14 July 2005, the Constitutional Court of the Russian Federation issued a decision that provides grounds for the tax authorities to disregard the period open to inspection if the taxpayer “obstructed” or “hindered” a tax inspection. Since the terms “obstructed”, “hindered” and “insurmountable obstacles” are not defined, the tax authorities may have broad discretion to argue that a taxpayer has “obstructed” or “hindered” or “created insurmountable obstacles” in respect of an inspection and ultimately to re-inspect a taxpayer for the purpose of assessing additional taxes and fines and late payment interest thereon beyond the three-year statute of limitations.

In addition, following the replacement of the unified social tax with mandatory contributions to the Social Security Fund, the Medical Insurance Fund and the Pension Fund on 1 January 2010, the Pension Fund and the Social Security Fund have been empowered to carry out audits concerning payments of contributions to the respective funds, which may also increase our tax administration burden.

The tax audits may result in additional tax liabilities, significant penalties, interest for late payment and enforcement measures for us if the relevant authorities conclude that we did not satisfy our tax obligations in

any given year. This may have a material adverse effect on our business, results of operations, financial condition or prospects and the trading price of the Securities. The tax audits may also impose additional administrative burden on us by diverting the attention of the management and financial personnel, requiring resources for defending our tax position, including for any tax litigation.

***We may be deemed to receive unjustified tax benefits.***

In its decision of 26 July 2001, the Russian Constitutional Court introduced the concept of “a taxpayer acting in bad faith” without clearly stipulating the criteria for its application. Although this concept is also not defined in Russian tax law or other Russian laws, it has been used by the tax authorities to invalidate, for instance, a taxpayer’s reliance on the letter of the tax law. The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers.

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

There is little practice on interpretation of this relatively new concept by the tax authorities or courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the intention of the ruling was to combat abuse of tax law, based on the available court practice relating to this ruling, the tax authorities have started applying the “unjustified tax benefit” concept in a broader sense than may have been intended by the Supreme Arbitration Court. In particular, we are aware of cases when this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date in the majority of cases where this concept was applied, the courts ruled in favour of taxpayers but it is not possible to determine whether the courts will follow these precedents in the future. Furthermore, Resolution No. 64 of the Plenum of the Supreme Court of 28 December 2006 “Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes” is indicative of the trend to broaden the application of criminal liability for tax violations.

The above risks and uncertainties complicate our tax planning and related business decisions, potentially exposing us to significant penalties and interest for late payments and enforcement measures and could have a material adverse effect on our business, financial condition, results of operations, future prospects and the trading price of the Securities.

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

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

Under the Russian Tax Code, we are entitled to recover the excess of Input VAT over VAT collected from the buyers, either through cash refunds or offset against future tax liabilities, while we are also entitled to earn interest on any excess Input VAT amounts which have not been timely refunded by the tax authorities. The Tax Code provides for the right to apply for a cash refund of Input VAT from the Russian federal budget. Submitting a VAT return with declared VAT refund results in desk tax audit. If a taxpayer successfully passes through desk tax audit Russian tax authorities take a decision for a cash refund. However, obtaining a VAT refund may be a time consuming process and can involve considerable practical difficulties.

Russian tax law, however, allows the offset of the amount of VAT refund against other federal tax liabilities such as corporate profit tax. If the Company’s federal tax liabilities are insufficient to cover the Company’s declared VAT refund, the excess VAT amount may be carried forward for future offset, which may create a cash flow issue which, in turn, could have a material adverse effect on our business, prospects, results of operations, financial condition or the price of the Securities.

Thus, despite our efforts at compliance, there remains a risk that a portion of Input VAT may not be recoverable or that the recovery may take a significant amount of time.

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

***Russian transfer pricing legislation may require pricing adjustments and impose additional tax liabilities in respect of all controlled transactions.***

Russian transfer pricing rules give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, where the transaction price differs from the market price by more than 20 percent. Controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and any transactions with significant price fluctuations (i.e. if the price of such transactions differs from the prices on similar transactions by more than 20 percent within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities or derivatives.

The Russian transfer pricing rules are vaguely drafted and subject to differing interpretations by Russian tax authorities and courts. In addition, a draft law that may increase the scope of transfer pricing adjustments is currently being considered by the Russian parliament (State Duma). Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment.

Furthermore, a draft law which is currently being considered by the Russian parliament (State Duma) in its second reading may tighten Russian transfer pricing rules. While it is anticipated that the aforementioned amendments would come into force starting from 2011, currently it cannot be predicted when exactly they will be enacted, or what effect the provisions may have on us. Since we engage in a variety of transactions with Russian Railways and its subsidiaries which are our related parties, additional tax liabilities on these transactions under the Russian transfer pricing legislation may have a material adverse effect on our business, financial condition and results of operations, future prospects and the trading price of the Securities.



## THE OFFERING

<b>The Company</b> . . . . .	Open Joint Stock Company Center for Cargo Container Traffic TransContainer is an open joint stock company organised and existing under the laws of the Russian Federation. The Company's office is located at 15A, Kalanchevskaya Street, Moscow, 107174, Russian Federation.
<b>The Selling Shareholder</b> . . . . .	OJSC Russian Railways is an open joint stock company organised and existing under the laws of the Russian Federation. Immediately prior to the Offering, Russian Railways owned 85 percent of our ordinary shares.
<b>The Offering</b> . . . . .	<p>The Offering is made as part of the Reform Programme (as defined herein) aimed, among other things, at encouraging private investment into modernisation of railway-related assets, see <i>“Regulation of Railway Transportation in Russia — Structural Reform and Development Strategy of Railway Transportation in Russia”</i>.</p> <p>The Offering consists of an offering of (i) 4,654,749 Ordinary Shares in the form of ordinary shares and GDRs by the Selling Shareholder and (ii) an offering of 347,369 Ordinary Shares in the form of GDRs by Moore.</p> <p>The Offering comprises an offering of ordinary shares and GDRs outside the United States in reliance on Regulation S. See <i>“Plan of Distribution”</i>.</p>
<b>Minimum Share Price</b> . . . . .	The Russian government, Russian Railways' board of directors and the Board of Directors, each approved the minimum price of not less than RUR 2,311.29, as determined by an independent appraiser, at which a Share may be sold in the Offering (the <b>“Minimum Share Price”</b> ).
<b>Our share capital</b> . . . . .	Our share capital consists of 13,894,778 ordinary shares, all of which are fully paid, issued and outstanding, with a nominal value of RUR 1,000 per share. The Shares have the rights described under <i>“Description of Share Capital and Applicable Russian Law”</i> .
<b>Joint Global Coordinators and Joint Bookrunners</b> . . . . .	J.P. Morgan Securities Ltd., Morgan Stanley & Co. International plc, CJSC “Investment Company “Troika Dialog”” and TD Investments Limited.
<b>Co-Bookrunner</b> . . . . .	TKB Capital (CJSC).
<b>Stabilisation</b> . . . . .	In connection with the Offering, the Stabilising Manager, on behalf of the Managers, may over-allot the GDRs or effect other stabilisation transactions with a view to supporting the market price of the GDRs at a higher level than that which might otherwise prevail in the open market. Such stabilisation activities may be effected on any securities

	market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the announcement of the Offer Price and ending no later than 30 calendar days thereafter.
<b>Depository</b> .....	BNY Mellon (Cyprus) Nominees Limited
<b>GDRs</b> .....	<p>Each Ordinary Share will be represented by 10 GDRs on deposit with the Custodian on behalf of the Depository. The GDRs will be issued by the Depository pursuant to the Deposit Agreement. The GDRs will be evidenced by the Master Regulation S GDR. See “<i>Summary of Provisions Relating to the GDRs While in Master Form</i>”. Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. See “<i>Summary of Provisions Relating to the GDRs While in Master Form</i>”.</p> <p>Additional Ordinary Shares may be deposited, subject to the provisions set forth under “<i>Terms and Conditions of the Global Depository Receipts</i>” and in the Deposit Agreement, with the Custodian against which the Depository shall issue GDRs representing such Ordinary Shares.</p> <p>The GDRs will represent approximately 20.4 percent of our share capital.</p>
<b>Depository’s Fees</b> .....	Under the Deposit Agreement, the Depository is entitled to certain fees, including for the issue of GDRs, issuing and replacing GDR certificates, receiving and paying any cash dividend, distribution of Shares, annual fees for depository services and fees for local share registry inspection. See “ <i>Terms and Conditions of the Global Depository Receipts</i> ”. Pursuant to our separate arrangement with the Depository, the annual fee for depository services for the first five years will initially be set at US\$0.02 per GDR. Under the “ <i>Terms and Conditions of the Global Depository Receipts</i> ” the annual fee may be up to US\$0.05. As a result, any increase in this fee up to US\$0.05 per GDR per year is subject only to agreement between the Company and the Depository and not to the procedure described in Condition 22.
<b>Use of Proceeds</b> .....	We will not receive any of the proceeds from the sale of the Securities in this Offering. Gross proceeds to the Selling Shareholder from the Offering are expected to be approximately US\$ 400 million. Total fees and expenses incurred in connection with the Offering are expected to be approximately US\$12 million, with approximately US\$0.5 million to be paid by the Company.
<b>Lock-up</b> .....	The Company, the Selling Shareholder and the European Bank for Reconstruction and Development (“ <b>EBRD</b> ”) have agreed that they will not, and we and the Selling Shareholder will procure that none of our and its respective subsidiaries (as defined in the Underwriting Agreement) will, subject to certain exemptions, for a period, commencing on the date of execution of the Underwriting Agreement and ending on the date that is 180 days after the Closing Date: (i) issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product which value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward

sales and options or depositary receipts representing the right to receive any such securities; or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Ordinary Shares; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any such transaction.

**Dividend Policy** . . . . . We may declare and pay dividends in accordance with the Joint Stock Company Law and the Company’s charter. The procedures for dividend payment will depend, among other things, on our future earnings, net profit, financial condition, capital requirements and other such factors as the Board of Directors may consider relevant. See “*Dividend Policy*”.

**Listing** . . . . . Prior to the Offering, there has been no public market for the Securities. Application has been made to (i) the FSA in its capacity as competent authority under the FSMA for Admission of up to 28,314,060 GDRs to be issued on the Closing Date against the deposit of ordinary shares (to the extent permitted by law) with the Depositary to be admitted to the Official List, and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange’s regulated market segment of the IOB. We expect that conditional trading through the IOB will commence on a “when and if issued” basis on or about 9 November 2010. The price of the Shares on RTS and MICEX and GDRs on the London Stock Exchange may not necessarily reflect the Offer Price.

**Settlement Procedures** . . . . . The Shares and the GDRs are being delivered to investors in the Offering by the Joint Global Coordinators subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part.

The Shares will be delivered by the Selling Shareholder to the Managers or, as the case may be, their affiliates, on or about 11 November 2010. Delivery of, and payment for, the Shares is expected to commence immediately following such date.

Application will be made to have the GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg. Payment for, and delivery of, the GDRs will be made on or about the Closing Date through the facilities of Euroclear and Clearstream, Luxembourg.

In order to take delivery of the GDRs, investors must pay for them in US dollars in same-day funds on or prior to the closing of the Offering at the Offer Price and must have an appropriate securities account with Euroclear or Clearstream, Luxembourg. See “*Settlement and Transfer*”.

The Shares are payable in Roubles or US dollars in same-day funds, at the Offer Price, and will be delivered to investors on or about 12 November 2010. Investors must notify the Joint Global Coordinators of the currency of payment not later than the date of this Prospectus.

In order to take delivery of the Shares, each purchaser should either have a direct account with the registrar or a deposit account with DCC, NDC or any other depositary that has an account with DCC or NDC or a direct account with the registrar. Investors may, at their own expense, choose to hold the Shares through a direct account with the Company’s registrar or a Russian-licensed depositary (other than DCC or NDC) having an account with the Company’s registrar. However, any

	ordinary shares that are directly held are ineligible for trading on MICEX or RTS.
<b>Transfer Restrictions</b> . . . . .	The Securities will be subject to certain restrictions on transfer and sale. See “ <i>Selling and Transfer Restrictions</i> ”.
<b>Voting</b> . . . . .	One Share is generally entitled to one vote at a shareholders’ meeting, subject to certain exceptions described in “ <i>Description of Share Capital and Applicable Russian Law</i> ”. The voting rights of GDR holders are described in “ <i>Terms and Conditions of the Global Depository Receipts</i> ”.
<b>Taxation</b> . . . . .	For a discussion of certain Russian and UK tax consequences of purchasing and holding the Shares and GDRs, see “ <i>Taxation</i> ”.
<b>Security Codes</b> . . . . .	The security identification numbers of the Shares and the GDRs offered hereby are as follows:  Ordinary Shares ISIN: RU000A0JPRX9 Regulation S GDR ISIN: US8935561006 Regulation S GDR Common Code: 055712654 Regulation S GDR CUSIP: 893556100 Regulation S SEDOL: B5TTGC6 London Stock Exchange GDR trading symbol: TRCN RTS Ordinary Shares trading symbol: TRCN (Classic Market)/TRCNG (T+0 market) MICEX Ordinary Shares trading symbol: TRCN

## **USE OF PROCEEDS**

We will not receive any of the proceeds from the sale of the Securities in this Offering. Gross proceeds to the Selling Shareholder from the Offering are expected to be approximately US\$400 million. Total fees and expenses incurred in connection with the Offering are expected to be approximately US\$12 million, with approximately US\$0.5 million to be paid by the Company.

## DIVIDEND POLICY

Pursuant to the Joint Stock Companies Law, the Company's charter and its dividend policy adopted in 2008, we may declare and pay dividends based on the results of the first three, six or nine months and annual results. All dividend payments must be recommended by the Board of Directors and approved by our shareholders. Neither the Board of Directors nor our shareholders are under any obligation either to recommend or to approve any dividend payments. Our ability to pay dividends is also restricted, including by reference to our net profit, determined pursuant to Russian statutory accounting principles, by Russian law, the Company's charter (*see "Description of Share Capital and Applicable Russian Law"*) and its dividend policy adopted in 2008.

In respect of the year ended 31 December 2009, we declared and paid a dividend in the amount of RUR 0.16 per ordinary share. In respect of the year ended 31 December 2008, we declared and paid a dividend in the amount of RUR 19.29 per ordinary share. In respect of the year ended 31 December 2007, we declared and paid a dividend in the amount of RUR 11.03 per ordinary share. In 2007, 2008 and 2009, dividends paid represented 10 percent of our net profit as determined under RAS.

## CAPITALISATION

The following table sets forth our consolidated cash and cash equivalents and capitalisation as of 30 June 2010. Prospective investors should read the following table in conjunction with “*Selected Consolidated Financial and Operating Information*”, “*Operating and Financial Review*” and our Consolidated Financial Statements, together with the respective notes thereto, included in the Prospectus beginning on page F-1.

	<b>As of 30 June 2010</b> <hr/> <b>(unaudited)</b> <b>(in millions of RUR)</b>
<b>Cash and cash equivalents</b> .....	<u>662</u>
<b>Total current borrowings<sup>(1)</sup></b> .....	615
<b>Total non-current borrowings<sup>(2)</sup></b> .....	6,807
<b>Total equity</b> .....	<u>18,638</u>
<b>Total capitalisation<sup>(3)(4)</sup></b> .....	<u><u>26,060</u></u>

(1) Total current borrowings is the sum of current portion of long-term debt and finance lease obligations, current maturities.

(2) Total non-current borrowings is the sum of long-term debt and finance lease obligations, net of current maturities.

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

(4) Other than as a result of the matters set forth under “*Operating and Financial Review*”, there has been no material change to our capitalisation since 30 June 2010.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following summary consolidated historical financial information as at and for the years ended 31 December 2009, 2008 and 2007 has been derived from the Audited Financial Statements, which are included elsewhere in this Prospectus. The unaudited summary consolidated historical interim financial information as at 30 June 2010 and for the six months ended 30 June 2010 and 2009 has been derived from the 2010 Interim Financial Statements, which are included elsewhere in this Prospectus. The 2010 Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, and in the opinion of the Company’s management, includes all adjustments, consisting of normal recurring adjustments necessary for a true and fair presentation of interim results. Investors should not rely on interim results as being indicative of results the Company may expect for the full year.

Prospective investors should read the following summary consolidated financial information in conjunction with the information contained in “*Presentation of Financial and Related Information*”, “*Risk Factors*”, “*Capitalisation*”, “*Operating and Financial Review*”, “*Business*”, the Annual Financial Statements and the 2010 Interim Financial Statements and the related notes thereto appearing elsewhere in this Prospectus.

### Consolidated Statement of Comprehensive Income

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR) (unaudited)		(in millions of RUR)		
Revenue . . . . .	9,942	7,720	16,400	20,494	13,375
Integrated logistics services . . . . .	4,414	2,571	5,347	4,769	196
Rail-based container shipping services . . . . .	3,223	3,093	6,573	9,686	8,451
Terminal services and agency fees . . . . .	941	778	1,678	2,369	2,124
Truck deliveries . . . . .	685	728	1,559	1,662	1,183
Freight forwarding and logistics services . . . . .	521	387	880	1,604	1,205
Bonded warehousing services . . . . .	113	120	265	299	132
Other . . . . .	45	43	98	105	84
Operating expenses, net . . . . .	<u>(9,160)</u>	<u>(7,118)</u>	<u>(14,726)</u>	<u>(15,570)</u>	<u>(10,686)</u>
Third-party charges relating to integrated logistics services . . . . .	(2,473)	(1,365)	(3,138)	(2,688)	(105)
Freight and transportation services . . . . .	(2,031)	(1,757)	(3,832)	(3,698)	(3,013)
Payroll and related charges . . . . .	(1,538)	(1,183)	(2,437)	(2,749)	(2,346)
Depreciation and amortisation . . . . .	(1,114)	(1,141)	(2,250)	(2,154)	(1,727)
Materials, repair and maintenance . . . . .	(763)	(572)	(1,182)	(1,902)	(1,981)
Taxes other than income tax . . . . .	(208)	(210)	(426)	(362)	(280)
Other expenses, net . . . . .	<u>(1,033)</u>	<u>(890)</u>	<u>(1,461)</u>	<u>(2,017)</u>	<u>(1,234)</u>
<b>Operating income . . . . .</b>	<b>782</b>	<b>602</b>	<b>1,674</b>	<b>4,924</b>	<b>2,689</b>
Interest expense . . . . .	(473)	(491)	(945)	(499)	(31)
Interest income . . . . .	9	33	35	98	115
Foreign exchange (loss)/gain, net . . . . .	<u>(3)</u>	<u>10</u>	<u>4</u>	<u>35</u>	<u>(38)</u>
<b>Profit before income tax . . . . .</b>	<b>315</b>	<b>154</b>	<b>768</b>	<b>4,558</b>	<b>2,735</b>
Income tax expense . . . . .	<u>(118)</u>	<u>(65)</u>	<u>(179)</u>	<u>(988)</u>	<u>(801)</u>
<b>Profit and comprehensive income for the period . . . . .</b>	<b><u>197</u></b>	<b><u>89</u></b>	<b><u>589</u></b>	<b><u>3,570</u></b>	<b><u>1,934</u></b>



**Consolidated Statement of Financial Position**

	<b>As at 30 June</b>		<b>As at 31 December</b>		
	<b>2010</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in millions of RUR)</b>		<b>(in millions of RUR)</b>		
Property, plant and equipment . . . . .	24,534		23,097	22,059	15,800
<b>Total non-current assets . . . . .</b>	<b>27,088</b>		<b>25,713</b>	<b>24,715</b>	<b>16,854</b>
Trade and other receivables . . . . .	1,940		1,941	1,641	1,164
Prepayments and other current assets . . . . .	2,204		2,263	1,957	1,384
Cash and cash equivalents . . . . .	662		449	453	1,352
<b>Total current assets . . . . .</b>	<b>5,108</b>		<b>5,028</b>	<b>4,334</b>	<b>4,226</b>
<b>Total assets . . . . .</b>	<b>32,196</b>		<b>30,741</b>	<b>29,049</b>	<b>21,080</b>
<b>Total equity . . . . .</b>	<b>18,638</b>		<b>18,443</b>	<b>18,122</b>	<b>14,671</b>
Finance lease obligations, net of current maturities . . . . .	575		1,115	832	294
Long-term debt . . . . .	6,232		1,520	—	—
<b>Total non-current liabilities . . . . .</b>	<b>8,832</b>		<b>4,690</b>	<b>2,914</b>	<b>2,523</b>
Trade and other payables . . . . .	3,453		3,172	4,057	3,149
Current portion of long-term debt . . . . .	109		—	—	—
Five-year RUR bonds, Series 1 . . . . .	—		3,153	3,088	—
<b>Total current liabilities . . . . .</b>	<b>4,726</b>		<b>7,608</b>	<b>8,013</b>	<b>3,886</b>
<b>Total equity and liabilities . . . . .</b>	<b>32,196</b>		<b>30,741</b>	<b>29,049</b>	<b>21,080</b>

**Cash Flows**

	<b>Six months ended</b>		<b>Year ended 31 December</b>		
	<b>30 June</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in millions of RUR)</b>		<b>(in millions of RUR)</b>		
	<b>2010</b>	<b>2009</b>			
	<b>(unaudited)</b>				
<b>Net cash provided by operating activities . . . . .</b>	1,071	1,076	2,168	4,864	3,711
<b>Net cash used in investing activities . . . . .</b>	(2,127)	(1,054)	(3,048)	(8,380)	(4,357)
<b>Net cash provided by financing activities . . . . .</b>	1,280	191	1,011	2,582	804

**Additional (Non-IFRS) Financial Information (unaudited)**

	<b>Six months ended</b>		<b>Year ended 31 December</b>		
	<b>30 June</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(in millions of RUR)</b>		<b>(in millions of RUR)</b>		
<b>Adjusted Revenue<sup>(1)(2)</sup> . . . . .</b>	7,469	6,355	13,262	17,806	13,270
<b>Adjusted Operating Expenses<sup>(1)(3)</sup> . . . . .</b>	6,687	5,753	11,588	12,882	10,581
<b>EBITDA<sup>(1)(4)</sup> . . . . .</b>	1,902	1,786	3,963	7,211	4,493
<b>EBITDA Margin<sup>(1)(5)</sup> . . . . .</b>	19.1%	23.1%	24.2%	35.2%	33.6%
<b>Adjusted EBITDA Margin<sup>(1)(6)</sup> . . . . .</b>	25.5%	28.1%	29.9%	40.5%	33.9%
<b>Adjusted Operating Margin<sup>(1)(7)</sup> . . . . .</b>	10.5%	9.5%	12.6%	27.7%	20.3%

(1) Adjusted Revenue, Adjusted Operating Expenses, EBITDA, EBITDA Margin, Adjusted EBITDA Margin and Adjusted Operating Margin are non-IFRS measures presented as the supplemental measures of our operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any of them in isolation, or any combination of them, as a substitute for analysis of our results as reported under IFRS. See "Presentation of Financial and Related Information".

(2) Adjusted Revenue is calculated as total revenue less third-party charges relating to integrated logistics services.

**Reconciliation of revenue to Adjusted Revenue**

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
Total revenue . . . . .	9,942	7,720	16,400	20,494	13,375
<i>Minus</i>					
Third party charges relating to integrated logistics services . . . . .	<u>2,473</u>	<u>1,365</u>	<u>3,138</u>	<u>2,688</u>	<u>105</u>
<b>Adjusted Revenue</b> . . . . .	<b><u>7,469</u></b>	<b><u>6,355</u></b>	<b><u>13,262</u></b>	<b><u>17,806</u></b>	<b><u>13,270</u></b>

(3) Adjusted Operating Expenses is calculated as operating expenses less third-party charges relating to integrated logistics services.

**Reconciliation of operating expenses to Adjusted Operating Expenses**

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
Total operating expenses . . . . .	9,160	7,118	14,726	15,570	10,686
<i>Minus</i>					
Third-party charges relating to integrated logistics services . . . . .	<u>2,473</u>	<u>1,365</u>	<u>3,138</u>	<u>2,688</u>	<u>105</u>
<b>Adjusted Operating Expenses</b> . . . . .	<b><u>6,687</u></b>	<b><u>5,753</u></b>	<b><u>11,588</u></b>	<b><u>12,882</u></b>	<b><u>10,581</u></b>

(4) EBITDA is defined as profit for the period before income tax, interest expense and depreciation and amortisation.

**EBITDA Reconciliation**

	Six months ended 30 June		Year ended 31 December		
	2010	2009	2009	2008	2007
	(in millions of RUR)		(in millions of RUR)		
<b>Profit before income tax</b> . . . . .	<b>315</b>	<b>154</b>	<b>768</b>	<b>4,558</b>	<b>2,735</b>
<i>Plus</i>					
Interest expense . . . . .	473	491	945	499	31
Depreciation and amortisation . . . . .	<u>1,114</u>	<u>1,141</u>	<u>2,250</u>	<u>2,154</u>	<u>1,727</u>
<b>EBITDA</b> . . . . .	<b><u>1,902</u></b>	<b><u>1,786</u></b>	<b><u>3,963</u></b>	<b><u>7,211</u></b>	<b><u>4,493</u></b>

(5) EBITDA margin represents EBITDA divided by total revenue.

(6) Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.

(7) Adjusted Operating Margin is defined as operating income divided by Adjusted Revenue.

## OPERATING AND FINANCIAL REVIEW

### OVERVIEW

We are the leading intermodal container transportation and integrated logistics solutions company in Russia, providing comprehensive container transportation and freight management services. We were incorporated on 4 March 2006 and commenced our operating activities on 1 July 2006. From March 2003 to 4 March 2006, TransContainer operated as a branch of Russian Railways.

At the time of our incorporation, Russian Railways contributed flatcars, a network of 47 in-land container terminals (one of which was subsequently divested) and certain other related assets to our share capital. This contribution occurred gradually between 4 March 2006 and 28 February 2007, thereby gradually increasing our capacity and enhancing the services we could provide to our customers. In line with this contribution, our business activities, as well as our revenue generated and operating expenses incurred, also increased.

As of 30 June 2010, we operated approximately 25,500 flatcars. Our flatcars transported approximately 1.1 million TEUs in 2009 and 0.55 million TEUs in the first half of 2010. As of 30 June 2010, we serviced more than 300,000 routes in Russia and abroad. We own a network of rail-side container terminals located at 46 railway stations in Russia and operate one in Slovakia. Our terminals, many of which are located along Russia's busiest transportation corridors, had a throughput of approximately 1.46 million TEUs in 2009, and 0.73 million TEUs for the six months ended 30 June 2010. We are the market leader in Russia by flatcar fleet size, TEUs transported by rail and rail-side container terminal throughput, and our market share in these categories as of 30 June 2010 was approximately 60 percent, 53 percent and 34 percent, respectively, according to A.T. Kearney.

By integrating our terminal infrastructure, nationwide sales network, transportation assets, operational knowhow and market knowledge, we provide a wide range of reliable and tailored intermodal container transportation and integrated logistics solutions to our customers throughout Russia and the CIS. We leverage our unique asset base to serve more than 200,000 customers, including approximately 20,000 regular customers, representing a range of industries, with our top 10 customers representing approximately 23 percent of the total amounts billed to customers for the six months ended 30 June 2010.

Our extensive sales network, consisting of 148 offices and service centres in Russia as well as our presence in the CIS, Europe and Asia, allow us to efficiently serve our existing customers and attract new customers. The close proximity of our sales network to our customers enables us to effectively cross-sell our services and provide timely responses to changes in our customers' needs.

In 2009, our revenue was RUR 16,400 million, our Adjusted Revenue was RUR 13,262 million and EBITDA was RUR 3,963 million. For the six months ended 30 June 2010, our revenue was RUR 9,942 million, our Adjusted Revenue was RUR 7,469 million and our EBITDA was RUR 1,902 million. As of 30 June 2010, our total assets were RUR 32,196 million and our total liabilities were RUR 13,558 million. For the definition and description of management's use of non-IFRS measures, including Adjusted Revenue, Adjusted Operating Expenses, EBITDA, EBITDA Margin, Adjusted EBITDA Margin and Adjusted Operating Margin, see "*Presentation of Financial and Related Information*", and for a reconciliation of these measures to IFRS line items, see "*Selected Consolidated Financial and Operating Information*".

### SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

Our financial results have been, and may continue to be, affected by a number of factors, including those set forth below.

#### Macroeconomic factors

Our results have been, and future results are likely to be, affected by the macroeconomic climate both globally and in Russia, including, in particular, the dynamics of GDP and disposable income in Russia, demand for consumer goods, foreign trade and volumes of imports and exports in Russia, as well as industry specific factors, such as low containerisation levels.

Prior to the global economic downturn, the Russian economy experienced steady growth, driven in part by consumer demand, which supported growing demand for manufactured products and consumer goods, many of which are suitable for containerisation.

The following table illustrates certain Russian economic growth indicators for the years ended 31 December 2005 through 2009:

	For the year ended 31 December				
	2005	2006	2007	2008	2009
GDP growth . . . . .	6.4%	7.7%	8.1%	5.6%	(7.9)%
Export volume of goods and services . . . . .	6.5%	7.3%	6.3%	0.1%	(9.2)%
Import volume of goods and services . . . . .	16.6%	21.3%	29.7%	15.2%	(14.9)%
Consumption . . . . .	11.2%	11.2%	13.8%	10.6%	(8.0)%

Source: EIU

International container traffic, which comprises the import and export of goods in and out of Russia, grew at approximately 12 percent per year from 2006 to 2008, according to A.T. Kearney, which is almost twice the GDP growth over the same period. The main drivers of growth in containerised import volumes were the imports of food, consumer goods, automotive parts and equipment, while containerised exports increased due to large volumes of non-ferrous metals such as aluminium, pulp and paper, and chemicals. Despite this high growth, levels of containerisation in Russia have remained relatively low compared to Western industrial economies and rapidly growing economies of Brazil, India and China (together with Russia the “BRIC” countries), thereby reflecting an opportunity for growth.

The demand for rail container transportation in Russia decreased during the global economic downturn with approximately 1.9 million TEUs transported in 2009, compared with 2.5 million TEUs in 2008. The demand for container transportation, however, has increased since the first quarter of 2010 as the Russian economy began to show signs of recovery. This increase in demand has largely been driven by an increase in the demand for integrated logistics services, particularly, in the automotive manufacturing and nonferrous metals industries, and an increase in international trade and consumer demand. Volumes of international trade and levels of consumer spending impact the demand for our services, and affect our revenue, margins, pricing, volumes transported, as well as the budget for our capital expenditures such as terminal upgrades and acquisitions, which ultimately affect our financial position and results of operations.

According to A.T. Kearney, in the short- to medium-term, Russian macroeconomic indicators, including consumption levels, are expected to grow at a stable pace with imports having the greatest growth potential, which will have a positive impact on container transportation volumes. According to A.T. Kearney, real GDP is forecasted to demonstrate steady growth between four and five percent annually for the next three years, and it is currently expected that, by the end of 2011, container transportation volumes may reach the levels similar to those transported prior to the global economic downturn. According to A.T. Kearney, volumes will continue to grow at nearly twice the annual rate of GDP growth in the next five years, which is similar to global trends in this sector. See “*Russian Container Transportation Market*”.

## Pricing

We offer our customers two pricing options based on the contract in which we enter with them: a through-rate contract or an itemised contract.

### *Through-rate contracts*

Shipments made under a through-rate contract are shown in our consolidated statement of comprehensive income under the integrated logistics services line item. Under a through-rate contract our customers, typically large shippers with large volumes, pay a single price for a set of services provided as an integrated package. This package of services may include, in addition to third-party transportation services (such as railway infrastructure and locomotive services of Russian Railways) and container transportation and handling charges, such additional services as freight forwarding, route planning and optimisation, customs clearance and brokerage, storage (including bonded warehousing), pick-up and “last mile” truck delivery, as well as cargo tracking and security.

Our contracts with large corporate customers usually stipulate both a fixed through-rate price and a fixed transportation volume and generally contain a price adjustment mechanism designed to adjust our rates for any increases in the tariffs charged by Russian Railways, significant changes in foreign exchange rates and inflation. Long-term transportation volumes are typically determined for periods of one to several months and may deviate from the initially stated volumes for the given period without a change in the pricing terms. If there is a significant deviation from the initially stated volumes, the pricing terms may be changed based on a price-adjustment formula included in the contract or by executing a supplementary agreement.

In the last several years, we have increasingly marketed integrated logistics services provided under a through-rate contract. The share of such integrated logistics services has increased from 1.5 percent of total revenue in 2007 to 32.6 percent in 2009. In the first six months of 2010, 44.4 percent of our total revenue was generated from integrated logistics services provided under through-rate contracts, and approximately 167 thousand TEUs of a total of 399 thousand revenue-generating TEUs were transported under through-rate contracts. Thus, revenue from integrated logistics services generated from through-rate contracts is the fastest growing component of our total revenue and significantly affects our pricing. See “*Business — Integrated logistics services*”.

### ***Itemised contracts***

Itemised contracts continue to represent a majority of our customer contracts. Itemised contracts set out prices separately for each of our services. An itemised price is the sum total of the individual rates of component services comprising an order, including payments to third parties. We typically provide an itemised price quote to small-and medium-sized customers, as well as to freight forwarding companies that usually prefer to purchase each required service separately rather than as a package of services. The prices charged by third parties for the services they provide, such as infrastructure and traction services provided by Russian Railways, can be paid directly to that third party, but are typically paid to us and then passed on to the third party and do not appear on our consolidated statement of comprehensive income.

### ***Payment terms***

When we began operating as an independent legal entity in 2006, we required all customers to prepay for our services. As our business and customer base grew and developed, we began offering extended contractual payment terms (of up to 45 days) to some of our larger customers, which affected our cash flows and working capital. Generally, the greater the volumes transported by a particular customer, the greater the flexibility in payment terms. We may offer extended payment terms to some of our large corporate customers with high shipping volumes, while our smaller customers are typically required to prepay for our services.

During the global economic downturn, we began to offer extended payment terms to some of our customers that previously were not offered such an option, primarily in order to support demand for our services and maintain our customer base. However, as the Russian economy, international trade and the container transportation market began to show signs of recovery, we significantly limited the offering of extended payment terms except to certain large customers. See “*Business — Customers and sales — Pricing — Pricing during the recent economic downturn*”.

### ***Empty runs and empty run charges***

An empty run for a flatcar is the interval it runs without carrying a container and for a container, when it runs empty. Russian Railways charges flatcar operators for the use of its rail infrastructure and locomotive service regardless of whether their flatcars are loaded with containers or whether the containers being transported on flatcars are loaded with cargo. However, we do not incur empty run charges when we transport our customers’ empty containers because customers pay for the Russian Railways’ infrastructure and locomotive service. We incur empty run charges only when we transport our own empty container on a flatcar or when our flatcar runs without carrying a container.

We generally incorporate a portion of container and flatcar empty run charges into our standard rates of a loaded run when we transport customers’ containers (or our containers with customers’ cargo). Typically, the empty run component of the price is based on the average expected empty runs across all our routes, representing an implied empty run regardless of whether or not the actual run includes an empty run. However, there are certain routes on which, in order to remain competitive, we set the empty run component of the price depending on the demand for our services and other factors, which may result in the empty run charges on such route being lower than the average implied empty run across all our routes. Furthermore, we may set the empty run component of the price on a case-by-case basis for some of our large customers.

The lower the occurrence of the actual empty runs, as a percentage of the implied empty runs embedded into the price of the loaded run, the higher our margins. To minimise the actual empty runs, we leverage our sales network and fleet management expertise to minimise actual empty runs by coordinating customers’ orders so that flatcars carry containers, and containers carry cargo, for one customer while in transit to the loading point for another customer. See “*Business — Growth strategy — Continue to improve the efficiency of operations and increase profitability*” for further information on empty run charges and how they affect our business.

### Acquisition of rolling stock

Our transportation volumes, and as a result our revenue and operating expenses, depend on the size of our rolling stock. Between March 2006 and February 2007, Russian Railways contributed a significant number of flatcars to our share capital. Since March 2007, we have continued to acquire rolling stock as part of our strategy to expand and renew our flatcar fleet in order to increase transportation volumes, as well as to replace aging stock. Our flatcar fleet increased from approximately 20,400 units as of 1 January 2007 to approximately 25,200 units as of 30 June 2010. As of 30 June 2010, we had capital commitments related to the acquisition of flatcars and containers in the amount of RUR 1,189 million. Depending on availability of financing as well as a sufficient quantity of flatcars available at acceptable prices, we currently expect to purchase approximately 1,300 new 80-foot flatcars in each of 2010 and 2011. As of 30 June, 2010, we have purchased approximately 720 new 80-foot flatcars. Our investment programme for 2011 and subsequent years depends on a number of factors, including the demand for container transportation and availability of financing. Although investments in rolling stock will increase our capital expenditures, we believe that those investments will drive higher revenue growth as the container transportation market recovers from the global economic downturn. See “*Business — Growth strategy — Increase container transportation volumes by continuing to invest in our flatcar and container fleet*”.

### Terminal throughput

Our container handling and transportation volumes, and therefore our revenue, may depend in the future on our terminals’ throughput capacity. By modernising our terminals, we believe we can increase the number of containers handled at our terminals, improve container handling efficiency and provide more expedient container handling and delivery services to customers. Furthermore, sufficient handling capacity at our terminals enables us to run more block-trains and implement shuttle trains, as well as allow for greater flexibility in offering intermodal container transportation and integrated logistics solutions to our customers. See “*Business — Terminals*”. We believe that investment in our terminals has, and will continue to have, a favourable impact on our container handling and transportation volumes and financial results.

Our terminal development programme to increase and modernise some of our container terminals requires significant capital expenditures. See “*Business — Terminals — Terminal development programme*”. However, we generally have flexibility in planning our capital expenditures and can determine whether to incur such expenditures depending on the demand for our services and macroeconomic conditions in Russia, among other factors. For example, in 2009 we significantly reduced capital expenditures related to upgrading our terminal network and suspended certain upgrade activities without incurring significant conservation costs.

### Seasonality

Our operations are affected by seasonal factors including river transport seasonality, the summer shipping season in northern regions, and consumer market cycles. We tend to experience lower shipment volumes and revenue in the first quarter of a year due to the Christmas and New Year holidays and because contracts with our customers are typically renewed in January, which can delay order placement until the contract renewals are finalised. We tend to experience higher operating volumes and revenue in the second and third quarters of the year, when demand for transporting containerised cargo to river ports in Siberia increases. This cargo is then transported onward by river, which is generally possible only in the warmer summer months through early autumn before the rivers begin to freeze. Our volumes and revenue are also impacted by the seasonality of industries like construction, which is most active in the summer months. In the third and fourth quarters, the retail industry, which is most active in the months leading up to the New Year and Christmas holidays, has a positive effect on our transportation volumes. As a result, our operating volumes, as well as our revenue, in the second half of the year tend to be higher than those in the first half. We typically schedule repairs and maintenance to the extent possible during off-peak seasons in order to maximise operations in the high season.

## RECENT DEVELOPMENTS

### Acquisition of KDTS and a joint venture with Kazakh Railways

We are currently negotiating the acquisition of a 67 percent equity stake in KDTS, a leading private operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. See “*Business — Assets — Terminals — Joint venture with Kazakh Railways*”. The acquisition will be financed by a bank loan. In June 2010, the Board of Directors approved the transaction. The acquisition is expected to be financed by a bank loan. The Board of Directors has approved the transaction and has also approved the general terms of a shareholders’ agreement to be entered into with Kazakh Railways in relation to the operation of KDTS.

Our ultimate goal in acquiring shares in KDTS is to form a joint venture with Kazakh Railways to jointly operate certain cargo handling terminal facilities as well as to jointly operate flatcars and transport containers in Kazakhstan. Kazakh Railways currently holds a 33 percent equity stake in KDTS and, in the short-to medium-term, subject to us completing the acquisition of a 67 percent stake in KDTS, contemplates the purchase of a 17 percent stake in KDTS from us, which would result in each party having a 50 percent stake in KDTS.

#### **Establishment of a subsidiary in Austria**

In August 2010, TransContainer Europe GmbH was registered as the Company's wholly-owned subsidiary with charter capital of EUR 2,400,000. The main purpose of the Austrian subsidiary is to promote our transportation and logistics services to European customers and to develop transit container transportation between China and Europe. We believe that this subsidiary will improve our international container transportation business, particularly between Russia and Europe and China and Europe.

#### **Establishment of a subsidiary in South Korea**

In August 2010, TransContainer Asia Pacific Ltd. was registered in South Korea as our wholly-owned subsidiary with charter capital of 460,000,000 South Korean Won. The main purpose of the South Korean subsidiary is to promote our transportation and logistics services to South Korean customers and to offer them integrated logistic solutions in container transportation between South Korea, Russia and the Eastern Europe. We believe that this subsidiary will improve our customer base in South Korea and will lead to the growth of import, export and transit container turnover between South Korea and Russia.

#### **CURRENT TRADING AND PROSPECTS**

Since 30 June 2010, we have continued to perform in line with management's expectations. Management has positive expectations regarding our financial and operating performance over the next twelve months. In particular, management currently believes that the markets in which we operate will continue to recover and international trade will continue to grow. If this recovery persists and trade grows, management currently expects our revenue to grow in line with this recovery as well as with seasonality trends. In accordance with our approved 2010 budget, our margins for the second half of the year are expected to be higher than for the first half of the year, although they may be slightly lower compared with 2009 as a result of certain deferred costs (such as flatcar repair costs) from 2009 to 2010.

#### **DESCRIPTION OF KEY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME ITEMS**

Set forth below is a brief description of the composition of our key consolidated statement of comprehensive income line items.

##### **Revenue**

Our total revenue consists of receipts from rail-based container shipping services, integrated logistics services, terminal services and agency fees, truck deliveries, freight forwarding and logistics services, bonded warehousing services and other services, each described below. For the purpose of this Operating and Financial Review section we have also presented Adjusted Revenue (which is a non-IRFS measure representing our total revenue less third-party charges relating to integrated logistics services). See "*Basis of Presentation of Financial Information*".

*Rail-based container shipping services.* Rail-based container transportation services comprise the services we provide under itemised contracts for the transportation of containers, flatcars or the combination of both, as well as under the operating leases of rolling stock and containers. Our prices for these services are not regulated. Revenue generated from these services does not include charges paid by our customers to third parties such as Russian Railways for infrastructure and traction services applicable to loaded runs, or to other railway companies and shipping liners, which we pass through to those third parties.

*Integrated logistics services.* Integrated logistics services is a set of bundled services which may include basic container transportation (including third-party transportation services, such as infrastructure and locomotive services of Russian Railways), container and cargo handling at terminals, bonded warehousing services, truck deliveries, freight forwarding and logistics services, all of which are rendered to customers under through-rate contracts.

*Terminal services and agency fees.* Terminal services, rendered under itemised contracts, include container handling services (such as loading, unloading and storage of containers), preparation of containers for loading with cargo and sealing containers, among other services. Some of these terminal services, such as loading and unloading

of containers onto and from flatcars, and storage of containers for up to five days, are services that Russian Railways is required to provide by law, and which we carry out as Russian Railways' agent. The tariffs for such services were previously set by the FTS, but in December 2009, the FTS informed us that tariff regulation would not apply to these terminal services. Since December 2009, Russian Railways has had the exclusive right to set the prices for these services. As an agent, we receive agency fees from Russian Railways, which are generally equal to the amounts we collect from customers for the relevant terminal services we provide on behalf of Russian Railways at prices set by Russian Railways. For all other terminal services we provide (i.e. those we do not perform as an agent for Russian Railways) we set prices based on the prevailing market rates for the particular type of services.

*Freight forwarding and logistics services.* Freight forwarding and logistics services includes services rendered under itemised contracts such as assistance in the preparation of documents for transportation and customs clearance, cargo tracking, route optimisation and planning, cargo security services and other services.

*Truck deliveries.* Truck deliveries include transportation of containers by truck from terminals to the end destination of our customers, or, in some cases, delivery of cargo by truck from door to door. We provide this service primarily for customers of our container shipping services and either implement it through our own truck fleet or outsource it to third-party trucking providers.

*Bonded warehousing services.* Bonded warehousing services comprise the storage of containers for our customers at yards or warehouses located at our terminals pending customs clearance or the payment of other applicable duties as well as coordinating with customs agents.

*Other revenue.* Other revenue consists of revenue generated from other business activities such as repair of containers for third parties.

### ***Operating expenses***

Operating expenses include the third-party charges relating to integrated logistics services, freight and transportation services, payroll and related charges, depreciation and amortisation, materials, repairs and maintenance, taxes other than income tax, and other expenses such as consulting services, security and rent. For the purpose of this Operating and Financial Review we present Adjusted Operating Expenses (which is a non-IRFS measure representing our total operating expenses less third-party charges relating to integrated logistics services). See “— *Basis of presentation and comparability of results*”.

*Freight and transportation services costs.* These costs primarily include Russian Railways' infrastructure and locomotive service charges relating to the transportation of our empty containers as well as payments for outsourced trucking services.

*Third-party charges relating to integrated logistics services.* These costs comprise charges for third-party services provided as a part of our integrated logistics services under through-rate contracts.

*Payroll and related charges.* These costs include employee salaries and bonus payments, unified social tax payments and net expense related to pension liabilities as well as payments to the members of the Board of Directors.

*Materials, repair and maintenance.* These are costs we incur in maintaining and repairing our flatcars, containers, trucks and power hoisting facilities, either in-house, or through payments to third-parties such as Russian Railways to whom we have outsourced certain maintenance functions such as depot repairs and overhaul of flatcars.

*Depreciation and amortisation.* These are the charges applied for the depreciation of our rolling stock, terminal equipment, buildings and other fixed assets, based on estimates of useful life, as well as for the amortisation of intangible assets.

*Taxes other than income tax.* Taxes other than income tax primarily consist of property taxes.

*Other operating expenses.* Other operating expenses include, among other expenses, expenses relating to rent, security, consultancy services, storage and fuel, as well as other general expenses.

## **RESULTS OF OPERATIONS**

### **For the six months ended 30 June 2010 compared to six months ended 30 June 2009**

Set forth below is a discussion comparing results of our operations for the periods indicated.



The following table sets forth our results for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June	
	2010	2009
	(unaudited) (in millions of RUR)	
<b>Revenue</b> . . . . .	<b>9,942</b>	<b>7,720</b>
Operating expenses, net . . . . .	(9,160)	(7,118)
<b>Operating income</b> . . . . .	<b>782</b>	<b>602</b>
Interest expense . . . . .	(473)	(491)
Interest income . . . . .	9	33
Foreign exchange (loss)/gain, net . . . . .	(3)	10
<b>Profit before income tax</b> . . . . .	<b>315</b>	<b>154</b>
Income tax expense . . . . .	(118)	(65)
<b>Profit and comprehensive income for the period</b> . . . . .	<b>197</b>	<b>89</b>

**Revenue**

The following table sets forth the breakdown and relative contribution of the components of our total revenue for the six months ended 30 June 2010 and 2009:

	For the six months ended 30 June		Period on period change	Period on period percent change
	2010	2009		
	(unaudited) (in millions of RUR)			
Integrated logistics services . . . . .	4,414	2,571	1,843	71.7%
Rail-based container shipping services . . . . .	3,223	3,093	130	4.2%
Terminal services and agency fees . . . . .	941	778	163	21.0%
Truck deliveries . . . . .	685	728	(43)	(5.9)%
Freight forwarding and logistics services . . . . .	521	387	134	34.6%
Bonded warehousing services . . . . .	113	120	(7)	(5.8)%
Other . . . . .	45	43	2	4.7%
<b>Total revenue</b> . . . . .	<b>9,942</b>	<b>7,720</b>	<b>2,222</b>	<b>28.8%</b>

Total revenue increased by RUR 2,222 million, or 28.8 percent, from RUR 7,720 million for the six months ended 30 June 2009 to RUR 9,942 million for the six months ended 30 June 2010. This increase was primarily due to higher demand for our key services in the first half of 2010 compared with the first half of 2009, when the global economic downturn resulted in a significant decline in transportation and handling volumes. Demand for container transportation and related services is driven by the economic conditions affecting the industries that use our services (e.g. car manufacturers, metals and construction), which were significantly adversely affected by the global economic downturn. As these industries began to recover from the global economic downturn, demand for our services began to grow. In particular, revenue from integrated logistics services grew by 71.7 percent from RUR 2,571 million to RUR 4,414 million, revenue from freight forwarding and logistic services grew by 34.6 percent from RUR 387 million to RUR 521 million, revenue from terminal services (including agency fees) increased by 21.0 percent from RUR 778 million to RUR 941 million and revenue from rail-based transportation services grew by 4.2 percent from RUR 3,093 million to RUR 3,223 million. These increases were partially offset by a decrease in revenue from truck deliveries by 5.9 percent from RUR 728 million to RUR 685 million and a decrease in revenue from bonded warehousing services by 5.8 percent from RUR 120 million to RUR 113 million.

The following table sets forth Adjusted Revenue for the six months ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
	(unaudited) (in millions of RUR)	
Total revenue . . . . .	9,942	7,720
Less third-party charges relating to integrated logistics services . . . . .	<u>(2,473)</u>	<u>(1,365)</u>
<b>Adjusted Revenue<sup>(1)</sup></b> . . . . .	<b><u>7,469</u></b>	<b><u>6,355</u></b>

Note:

(1) Adjusted Revenue is a non-IFRS measure. For additional information relating to non-IFRS measures see “*Summary of Financial Information and Other Information — Additional non-IFRS Financial Information (unaudited)*”.

Adjusted Revenue increased by RUR 1,114 million, or 17.5 percent, from RUR 6,355 million for the six months ended 30 June 2009 to RUR 7,469 million for the six months ended 30 June 2010. This increase was primarily due to the growing demand for integrated logistics services, terminal services and freight forwarding and other logistics services resulting from an improved economic climate, which also allowed us to gradually increase prices for these services. See “*Business — Customers and Sales — Pricing — Pricing during recent economic downturn*”.

The relative contribution of integrated logistics services to our revenue increased to 44.4 percent for the six months ended 30 June 2010, from 33.3 percent for the six months ended 30 June 2009, while the contribution of rail-based container shipping services to our revenue decreased to 32.4 percent for the six months ended 30 June 2010, from 40.1 percent for the six months ended 30 June 2009. The share of revenue derived from terminal services and agency fees and revenue from truck deliveries also decreased slightly to 9.5 percent and 6.9 percent, respectively, for the six months ended 30 June 2010, and from 10.1 percent and 9.4 percent for the six months ended 30 June 2009, respectively. The share of revenue from freight forwarding and logistics services increased marginally from 5.0 percent for the six months ended 30 June 2009 to 5.2 percent for the six months ended 30 June 2010. The overall change in revenue mix that occurred for the six months ended 30 June 2010 is a result of the growth in the integrated logistics services component of our revenue.

#### *Integrated logistics services*

Revenue from integrated logistics services increased by RUR 1,843 million, or 71.7 percent, from RUR 2,571 million for the six months ended 30 June 2009 to RUR 4,414 million for the six months ended 30 June 2010. Revenue from integrated logistics services, net of third-party charges relating to integrated logistics services, increased by RUR 735 million, or 60.9 percent, from RUR 1,206 million for the six months ended 30 June 2009 to RUR 1,941 million for the six months ended 30 June 2010. This increase was primarily due to the growing demand for integrated logistics services in Russia and our marketing efforts in promoting these services, which resulted in an increase in container transportation under through-rate contracts from 103 thousand loaded TEUs for the six months ended 30 June 2009 to 167 thousand loaded TEUs for the six months ended 30 June 2010. See “*Business — Services — Freight forwarding and logistics services*” and “*Business — Competitive strengths — Leading provider of integrated logistics services*”. The revenue increase was also due to an increase in prices we charge for integrated logistics services.

#### *Rail-based container transportation services*

Revenue from rail-based container transportation services increased by RUR 130 million, or 4.2 percent, from RUR 3,093 million for the six months ended 30 June 2009 to RUR 3,223 million for the six months ended 30 June 2010. This increase was primarily due to an increase in prices by approximately 28 percent, which was partially offset by the decrease in rail-based container transportation volumes by 18.6 percent, from 285 thousand TEUs for the six months ended 30 June 2009 to 232 thousand TEUs for the six months ended 30 June 2010 (excluding containers transported under through-rate contracts and transportation of our own empty containers). The decrease in transportation volumes resulted primarily from a decrease in customer demand for terminal-to-terminal deliveries in the first quarter of 2010 in response to the price increases we implemented between the end of 2009 and beginning of 2010 as well as from customer demand shifting from more traditional terminal-to-terminal rail-based container transportation to integrated logistics services.

*Terminal services and agency fees*

Revenue from terminal services, including agency fees, increased by RUR 163 million, or 21.0 percent, from RUR 778 million for the six months ended 30 June 2009 to RUR 941 million for the six months ended 30 June 2010. This increase was primarily due to an increase in container handling volumes from 681 thousand TEUs for the six months ended 30 June 2009 to 727 thousand TEUs for the six months ended 30 June 2010, or a 6.8 percent increase. The increase was also due to an increase in prices for terminal services. Russian Railways' tariffs for terminal services, primarily applicable to the services we render as an agent of Russian Railways, and therefore our agency fees increased by 15.8 percent from RUR 634 million for the six months ended 30 June 2009 to RUR 734 million for the six months ended 30 June 2010. Revenue from terminal services rendered by us at unregulated prices increased by 43.8 percent from RUR 144 million to RUR 207 million, from the six months ended 30 June 2009 to 2010, primarily due to an increase in market prices and an increase in the range of services we offer. See "Business — Terminal Services".

*Truck deliveries*

Revenue from truck deliveries decreased by RUR 43 million, or 5.9 percent, from RUR 728 million for the six months ended 30 June 2009 to RUR 685 million for the six months ended 30 June 2010. This decrease was primarily due to a shift in customer preference to bundling trucking services with other integrated services (revenue from which is reported in the revenue from integrated logistics services), rather than using trucking as a separate service.

*Freight forwarding and logistics services*

Revenue from freight forwarding and logistics services increased by RUR 134 million, or 34.6 percent, from RUR 387 million for the six months ended 30 June 2009 to RUR 521 million for the six months ended 30 June 2010. This increase was primarily due to an increase in our marketing of ancillary freight-forwarding services through our customer service centres and an increase in the number of such service centres, accompanied by the overall increase in demand for rail-based container transportation.

*Bonded warehousing services*

Revenue from bonded warehousing services decreased by RUR 7 million, or 5.8 percent, from RUR 120 million for the six months ended 30 June 2009 to RUR 113 million for the six months ended 30 June 2010. This decrease was primarily due to one of our large customers establishing its own bonded warehouse facilities as a cost-savings measure in the second half of 2009, which offset an increase in revenue from our newly established bonded warehousing facilities.

**Operating expenses**

The following table sets forth a breakdown of our significant operating expenses for the six months ended 30 June 2010 and 2009, including as a percentage of total revenue:

	For the six months ended 30 June					
	2010		2009			
	Percent of operating expenses	Percent of total revenue	(unaudited) (in millions of RUR)	Percent of operating expenses	Percent of total revenue	
Third-party charges relating to integrated logistics services . . . . .	(2,473)	27.0%	24.9%	(1,365)	19.2%	17.7%
Freight and transportation services . . . . .	(2,031)	22.2%	20.4%	(1,757)	24.7%	22.8%
Payroll and related charges . . . . .	(1,538)	16.8%	15.5%	(1,183)	16.6%	15.3%
Depreciation and amortisation . . . . .	(1,114)	12.2%	11.2%	(1,141)	16.0%	14.8%
Materials, repair and maintenance . . . . .	(763)	8.3%	7.7%	(572)	8.0%	7.4%
Taxes other than income tax . . . . .	(208)	2.2%	2.1%	(210)	3.0%	2.7%
Other expenses . . . . .	(1,033)	11.3%	10.3%	(890)	12.5%	11.5%
<b>Total operating expenses . . . . .</b>	<b>(9,160)</b>	<b>100%</b>	<b>92.1%</b>	<b>(7,118)</b>	<b>100%</b>	<b>92.2%</b>

Our total operating expenses increased by RUR 2,042 million, or 28.7 percent, from RUR 7,118 million for the six months ended 30 June 2009 to RUR 9,160 million for the six months ended 30 June 2010, primarily due to an increase in third-party charges relating to integrated logistics services.

The following table sets forth a breakdown of our significant operating expenses, except for third-party charges relating to integrated logistics services, as well as their value as a percentage of Adjusted Operating Expenses, for the six months ended 30 June 2010 and 2009:

	For the six months ended 30 June			
	2010	(unaudited) (in millions of RUR)		2009
		Percent of Adjusted Operating Expenses		Percent of Adjusted Operating Expenses
Freight and transportation services . . . . .	(2,031)	30.4%	(1,757)	30.5%
Payroll and related charges . . . . .	(1,538)	23.0%	(1,183)	20.6%
Depreciation and amortisation . . . . .	(1,114)	16.7%	(1,141)	19.8%
Materials, repair and maintenance . . . . .	(763)	11.4%	(572)	9.9%
Taxes other than income tax . . . . .	(208)	3.1%	(210)	3.7%
Other expenses . . . . .	(1,033)	15.4%	(890)	15.5%
<b>Adjusted Operating Expenses<sup>(1)</sup></b> . . . . .	<b>(6,687)</b>	<b>100.0%</b>	<b>(5,753)</b>	<b>100.0%</b>

Notes:

(1) For a reconciliation of Adjusted Operating Expenses see "Selected Consolidated Financial and Operating Information".

Adjusted Operating Expenses increased by RUR 934 million, or 16.2 percent, from RUR 5,753 million for the six months ended 30 June 2009 to RUR 6,687 million for the six months ended 30 June 2010, primarily due to an increase in freight and transportation services expense, payroll and related charges and materials, repair and maintenance during the same period.

#### *Third-party charges relating to integrated logistics services*

Third-party charges relating to integrated logistics services increased by RUR 1,108 million, or 81.2 percent, from RUR 1,365 million for the six months ended 30 June 2009 to RUR 2,473 million for the six months ended 30 June 2010. This reflects our increased transportation volumes under through-rate contracts, which grew from 103 thousand loaded TEUs for the six months ended 30 June 2009 to 167 thousand loaded TEUs for the six months ended 30 June 2010, as well as due to an increase in the prices of our subcontractors (primarily Russian Railways' tariffs). As a percentage of total operating expenses, third-party charges relating to integrated logistics services increased from 19.2 percent for the six months ended 30 June 2009, to 27.0 percent for the six months ended 30 June 2010.

#### *Freight and transportation services expenses*

Expenses relating to freight and transportation services increased by RUR 274 million, or 15.6 percent, from RUR 1,757 million for the six months ended 30 June 2009 to RUR 2,031 million for the six months ended 30 June 2010. The increase was primarily due to an increase in container transportation volumes by 1.3 percent from 545 thousand TEUs for the six months ended 30 June 2009 to 552 thousand TEUs for the six months ended 30 June 2010, as well as the increase in tariffs charged by Russian Railways for infrastructure and locomotive services applicable to empty runs by approximately 16 percent on average. As a percentage of total operating expenses, freight and transportation services expenses decreased from 24.7 percent for the six months ended 30 June 2009, to 22.2 percent for the six months ended 30 June 2010, primarily due to a significant increase in third-party charges relating to integrated logistics services, and the corresponding increase of their share in total operating expenses.

#### *Payroll and related charges*

Payroll and related charges increased by RUR 355 million, or 30.0 percent, from RUR 1,183 million for the six months ended 30 June 2009 to RUR 1,538 million for the six months ended 30 June 2010. This increase was primarily a result of the return to full-time employment of most of the employees who had been temporarily transferred to part-time schedules during the global economic downturn, which resulted in an increase in average monthly salaries by 19.4 percent from RUR 28.4 thousand to RUR 33.9 thousand as well as an increase in the unified social tax payments by RUR 50 million due to payroll growth and the changes in Russian tax law. However, the increase in payroll and related charges was partially offset by a decrease in the average number of employees by 3.9 percent from 5,353 for the six months ended 30 June 2009 to 5,146 for the six months ended 30 June 2010, primarily due to reduced hiring and the ongoing retirement of our employees. As a percentage of total operating

expenses, payroll and related charges increased marginally from 16.6 percent for the six months ended 30 June 2009, to 16.8 percent for the six months ended 30 June 2010.

*Depreciation and amortisation*

Depreciation and amortisation decreased marginally by RUR 27 million, or 2.4 percent, from RUR 1,141 million for the six months ended 30 June 2009 to RUR 1,114 million for the six months ended 30 June 2010. The decrease was primarily due to the divestment of the container terminal in Novorossiysk which was sold to optimise our terminal network. This decrease was partially offset by an increase in the number of new flatcars purchased during this period and the retiring of flatcars inherited from Russian Railways. As a percentage of total operating expenses, depreciation and amortisation expenses decreased from 16.0 percent for the six months ended 30 June 2009, to 12.2 percent for the six months ended 30 June 2010, mainly due to a significant increase in third-party charges relating to integrated logistics services, and the corresponding increase of their share in total operating expenses.

*Materials, repair and maintenance expenses*

Expenses related to materials, repair and maintenance increased by RUR 191 million, or 33.4 percent, from RUR 572 million for the six months ended 30 June 2009 to RUR 763 million for the six months ended 30 June 2010. This increase was primarily due to an increase in the volumes of repairs of our assets, which we largely suspended during the global economic downturn in an effort to reduce our operating costs, as well as the increase in the prices charged by repair workshops and costs of materials. As a percentage of total operating expenses, materials, repair and maintenance expenses increased from 8.0 percent for the six months ended 30 June 2009 to 8.3 percent for the six months ended 30 June 2010.

*Taxes other than income tax*

Taxes other than income tax decreased marginally by RUR 2 million, or 1 percent, from RUR 210 million for the six months ended 30 June 2009 to RUR 208 million for the six months ended 30 June 2010. This decrease was primarily due to a decrease in property tax payments, resulting primarily from the sale of the rail container terminal in Novorossiysk. As a percentage of total operating expenses, taxes other than income tax decreased from 3.0 percent for the six months ended 30 June 2009, to 2.2 percent for the six months ended 30 June 2010.

*Other expenses*

Other expenses increased from RUR 890 million for the six months ended 30 June 2009 to RUR 1,033 million for the six months ended 30 June 2010. As a percentage of total operating expenses, other expenses decreased from 12.5 percent for the six months ended 30 June 2009, to 11.3 percent for the six months ended 30 June 2010.

*Operating income*

Operating income increased by RUR 180 million, or 29.9 percent, from RUR 602 million for the six months ended 30 June 2009 to RUR 782 million for the six months ended 30 June 2010. This increase was primarily due to an increase in total revenue by RUR 2,222 million (or 28.8 percent) for the six months ended 30 June 2010, which was largely offset by an increase in operating expenses by RUR 2,042 million (or 28.7 percent) during the same period.

*Interest expense*

Interest expense decreased by RUR 18 million, from RUR 491 million for the six months ended 30 June 2009 to RUR 473 million for the six months ended 30 June 2010. This decrease was primarily due to a decrease in the coupon rate of our RUR 3,000 million non-convertible 5-year bond (the “**Five-year RUR Bonds, Series 1**”) from 16.5 percent per annum to 9.5 percent per annum, (see “—*Liquidity and Capital Resources — Capital Resources — Five-year RUR Bonds, Series 1*”) as well as a decrease in our short-term loans outstanding. In the first half of 2009, we borrowed approximately RUR 3,000 million in short-term loans denominated in Roubles and US dollars with interest rates ranging from 13.5 percent to 18 percent per annum. The loans were repaid prior to 30 June 2009.

*Interest income*

Interest income decreased by RUR 24 million, from RUR 33 million for the six months ended 30 June 2009 to RUR 9 million for the six months ended 30 June 2010. This decrease was primarily due to an overall decrease in the interest rates in Russia as well as due to the promissory notes of Finans-Proekt becoming non-interest bearing during 2009.

**Foreign exchange loss, net**

Foreign exchange loss, net, increased by RUR 13 million from a gain for RUR 10 million for the six months ended 30 June 2009 to a loss of RUR 3 million for the six months ended 30 June 2010. This decrease was due to fluctuations in exchange rates between the Rouble, the US dollar and euro.

**Profit before income tax**

Profit before income tax increased by RUR 161 million, or 104.5 percent, from RUR 154 million for the six months ended 30 June 2009 to RUR 315 million for the six months ended 30 June 2010. This increase was due to the factors discussed above.

**Income tax expense**

Income tax expense increased by RUR 53 million, or 81.5 percent, from RUR 65 million for the six months ended 30 June 2009 to RUR 118 million for the six months ended 30 June 2010. This was primarily due to a 104.5 percent increase in profit before tax. The effective tax rate decreased from 42 percent for the for the six months ended 30 June 2009 to 37 percent for the six months ended 30 June 2010 due to lower proportion of non-deductible expenses attributed to the profit before income tax. These non-deductible expenses were mainly related to post-employment benefits that are not deductible for tax purposes.

**Profit for the period**

Profit for the period increased by RUR 108 million, or 121.3 percent, from RUR 89 million for the six months ended 30 June 2009 to RUR 197 million for the six months ended 30 June 2010. This increase was due to the factors discussed above.

**For the years ended 31 December 2009 and 2008**

The following discussion is based on, and should be read in conjunction with, our Annual Financial Statements, included in this Prospectus beginning on page F-1.

The following table sets forth our consolidated statement of comprehensive income for the years ended 2009 and 2008:

	For the year ended 31 December		Year on year change	Year on year percent change
	2009	2008		
	(in millions of RUR)			
<b>Revenue</b> . . . . .	<b>16,400</b>	<b>20,494</b>	<b>(4,094)</b>	<b>(20.0)%</b>
Operating expenses, net . . . . .	(14,726)	(15,570)	844	(5.4)%
<b>Operating income</b> . . . . .	<b>1,674</b>	<b>4,924</b>	<b>(3,250)</b>	<b>(66.0)%</b>
Interest expense . . . . .	(945)	(499)	(446)	89.4%
Interest income . . . . .	35	98	(63)	(64.3)%
Foreign exchange gain, net . . . . .	4	35	(31)	(88.6)%
<b>Profit before income tax</b> . . . . .	<b>768</b>	<b>4,558</b>	<b>(3,790)</b>	<b>(83.2)%</b>
Income tax expense . . . . .	(179)	(988)	809	(81.9)%
<b>Profit and comprehensive income for the year</b> . . . . .	<b>589</b>	<b>3,570</b>	<b>(2,981)</b>	<b>(83.5)%</b>

**Revenue**

The following table sets forth the breakdown and relative contribution of the components of our total revenue for the years ended 31 December 2009 and 2008:

	For the year ended 31 December		Year on year change	Year on year percent change
	2009	2008		
	(in millions of RUR)			
Rail-based container shipping services . . . . .	6,573	9,686	(3,113)	(32.1)%
Integrated logistics services . . . . .	5,347	4,769	578	12.1%
Terminal services and agency fees . . . . .	1,678	2,369	(691)	(29.2)%
Truck deliveries . . . . .	1,559	1,662	(103)	(6.2)%
Freight forwarding and logistics services . . . . .	880	1,604	(724)	(45.1)%
Bonded warehousing services . . . . .	265	299	(34)	(11.4)%
Other . . . . .	98	105	(7)	(6.7)%
<b>Total revenue . . . . .</b>	<b>16,400</b>	<b>20,494</b>	<b>(4,094)</b>	<b>(20.0)%</b>

Total revenue decreased by RUR 4,094 million, or 20.0 percent, from RUR 20,494 million for the year ended 31 December 2008 to RUR 16,400 million for the year ended 31 December 2009. This decrease was primarily due to the lower demand for rail-based container shipping services, terminal services and agency fees resulting from the recent global economic downturn. In particular, revenue from rail-based transportation services decreased by 32.1 percent from RUR 9,686 million to RUR 6,573 million, revenue from terminal services (including agency fees) decreased by 29.2 percent from RUR 2,369 million to RUR 1,678 million, revenue from truck deliveries decreased by 6.2 percent from RUR 1,662 million to RUR 1,559 million, revenue from freight forwarding and logistics services fell by 45.1 percent from RUR 1,604 million to RUR 880 million. These decreases were partially offset by an increase in revenue from integrated logistic services by 12.1 percent from RUR 4,769 million to RUR 5,347 million.

The following table sets forth Adjusted Revenue for the years ended 31 December 2009 and 2008:

	For the years ended 31 December	
	2009	2008
	(unaudited)	
	(in millions of RUR)	
Total revenue . . . . .	16,400	20,494
Less third-party charges relating to integrated logistics services . . . . .	(3,138)	(2,688)
<b>Adjusted Revenue<sup>(1)</sup> . . . . .</b>	<b>13,262</b>	<b>17,806</b>

Notes:

(1) Adjusted Revenue is a non-IFRS measure. For additional information relating to non-IFRS measures see “Summary of Financial Information and Other Information —Additional non-IFRS Financial Information (unaudited)”.

Adjusted Revenue decreased by RUR 4,544 million, or 25.5 percent, from RUR 17,806 million for the year ended 31 December 2008 to RUR 13,262 million for the year ended 31 December 2009. This decrease was primarily due to the decrease in container transportation volumes by 24.2 percent and decrease in terminal throughput by 23.2 percent as a result of the global economic downturn, as well as due to our providing pricing discounts to our customers. See “Business — Customers and Sales — Pricing — Pricing during global economic downturn”.

The relative contribution of rail-based container shipping to our revenue decreased to 40.1 percent for the year ended 31 December 2009, from 47.3 percent for the year ended 31 December 2008. The share of revenue derived from terminal services and agency fees and revenue from freight forwarding and logistics services also decreased slightly to 10.2 percent and 5.4 percent, respectively, for the year ended 31 December 2009 and from 11.6 percent and 7.8 percent for the year ended 31 December 2008, respectively. The share of revenue from truck deliveries increased from 8.1 percent for the year ended 31 December 2008 to 9.5 percent for the year ended 31 December 2009. The overall change in revenue mix that occurred for the year ended 31 December 2009 was a result of the growth in the integrated logistics services component of our revenue.

*Rail-based container transportation services*

Revenue from rail-based container transportation services decreased by RUR 3,113 million, or 32.1 percent, from RUR 9,686 million for the year ended 31 December 2008 to RUR 6,573 million for the year ended 31 December 2009. This decrease was primarily due to the decrease in container transportation volumes by 40.5 percent, from 948 thousand TEUs for the year ended 31 December 2008 to 564 thousand TEUs for the year ended 31 December 2009, which reflected the overall decline in demand for container transportation services resulting from the global economic downturn as well as the partial shift in demand towards integrated logistics services. The decrease in revenue was also due to the reduction of our prices in the first six months of 2009, which we implemented to maintain our customer base. However, this effect was partially offset by the price increase in the second half of 2009.

*Integrated logistics services*

Revenue from integrated logistics services increased by RUR 578 million, or 12.1 percent, from RUR 4,769 million for the year ended 31 December 2008 to RUR 5,347 million for the year ended 31 December 2009. Revenue from integrated logistics services, net of third-party charges relating to integrated logistics services, increased by RUR 128 million, or 6.2 percent, from RUR 2,081 million for the year ended 31 December 2008 to RUR 2,209 million for the year ended 31 December 2009. This increase was primarily due to marketing efforts focused on promoting the integrated logistics services to our existing and new customers. See “*Business — Integrated logistics services*”. As a result, the volume of loaded containers transported under through-rate contracts increased by 19.3 percent, from 176 thousand TEUs for the year ended 31 December 2008 to 210 thousand TEUs for the year ended 31 December 2009. The increase in transportation volumes was partially offset by a decrease in our average prices because we fixed contractual terms for many customers in the beginning of 2009, and could not increase prices for these customers in the second half of 2009.

*Terminal services and agency fees*

Revenue from terminal services, which comprised agency fees received from Russian Railways and payments for our non-regulated services decreased by RUR 691 million, or 29.2 percent, from RUR 2,369 million for the year ended 31 December 2008 to RUR 1,678 million for the year ended 31 December 2009. This decrease was primarily due to the decrease in container handling volumes from 1,899 thousand TEUs for the year ended 31 December 2008 to 1,459 thousand TEUs for the year ended 31 December 2009, reflecting a 23.2 percent decrease in ISO and MDC container handling. This decrease reflects the overall decline in demand for container transportation services as well as for non-regulated ancillary terminal services rendered by us, which resulted from the global economic downturn. Revenue from terminal services provided by us (as opposed to acting as an agent of Russian Railways) also decreased by 48.5 percent from RUR 615 million for the year ended 31 December 2008 to RUR 317 million for the year ended 31 December 2009 primarily due to lower customer demand for ancillary terminal services.

The declines mentioned above were partially offset by an increase in tariffs by approximately 8 percent on average, which was applicable primarily to the services we rendered as an agent of Russian Railways. However, the agency fees we received from Russian Railways for rendering regulated services still declined by 22.4 percent from RUR 1,754 million for the year ended 31 December 2008 to RUR 1,361 million for the year ended 31 December 2009 due to the overall decrease in volumes of terminal throughput and the increased use by our customers of the integrated logistics services (rather than individual services under itemised contracts).

*Truck deliveries*

Revenue from truck deliveries decreased by RUR 103 million, or 6.2 percent, from RUR 1,662 million for the year ended 31 December 2008 to RUR 1,559 million for the year ended 31 December 2009. This decrease was primarily due to the overall decline in container transportation volumes and reduced customer demand for our terminal services. The total volume of container trucking decreased by 19.6 percent from 704 thousand TEUs in 2008 to 566 thousand TEUs in 2009. In particular, the volume of containers transported by our truck fleet decreased by 5.5 percent from 272 thousand TEUs for the year ended 31 December 2008 to 256 thousand TEUs for the year ended 31 December 2009, while container transportation by third-party truck operators decreased by 28.2 percent from 432 thousand TEUs to 310 thousand TEUs. This decrease was primarily due to the growth in the provision of integrated logistics services, which are typically implemented by our own trucks. Furthermore, when possible, we used our own trucks to maximise our asset utilisation rates, which resulted in retaining most of the employees in our trucking division and avoiding significant layoffs and the required severance payments associated with layoffs.



*Freight forwarding and logistics services*

Revenue from freight forwarding and logistics services decreased by RUR 724 million, or 45.1 percent, from RUR 1,604 million for the year ended 31 December 2008 to RUR 880 million for the year ended 31 December 2009. This decrease was primarily due to an overall decline in container transportation volumes and reduced customer demand for such ancillary services, which can often be performed by the shippers in-house in an effort to reduce transportation costs during the global economic downturn.

*Bonded warehousing services*

Revenue from bonded warehousing services decreased by RUR 34 million, or 11.4 percent, from RUR 299 million for the year ended 31 December 2008 to RUR 265 million for the year ended 31 December 2009. The decrease in the use of facilities for bonded warehousing was primarily due to an overall decrease in cross-border container transportation volumes in Russia, which typically generates demand for bonded warehousing services. This relatively moderate decrease was due to the increase in the number of our facilities for bonded warehousing services from five as of 31 December 2008 to ten as of 31 December 2009 and in their total area from 8.0 thousand square metres as of 31 December 2008 to 20.0 thousand square metres as of 31 December 2009, which was implemented as a part of our terminal development programme. See “*Business — Assets — Terminals — Terminal development programme*”.

**Operating expenses**

Our operating expenses for the years ended 31 December 2009 and 2008 were RUR 14,726 million and RUR 15,570 million, respectively.

The table below sets forth the breakdown of our significant operating expenses, as well as their value as a percentage of total operating expenses and of total revenue, for the years ended 31 December 2009 and 2008:

	For the year ended 31 December					
	2009		2008			
	Percent of operating expenses	Percent of total revenue	Percent of operating expenses	Percent of total revenue		
			(in millions of RUR)			
Freight and transportation services . . . . .	(3,832)	26.0%	23.4%	(3,698)	23.8%	18.0%
Third-party charges relating to integrated logistics services . . . . .	(3,138)	21.3%	19.1%	(2,688)	17.3%	13.1%
Payroll and related charges . . . . .	(2,437)	16.5%	14.9%	(2,749)	17.7%	13.4%
Depreciation and amortisation . . . . .	(2,250)	15.3%	13.7%	(2,154)	13.8%	10.5%
Materials, repair and maintenance . . . . .	(1,182)	8.0%	7.2%	(1,902)	12.2%	9.4%
Other expenses . . . . .	(1,887)	12.9%	11.5%	(2,379)	15.2%	11.6%
<b>Total operating expenses . . . . .</b>	<b>(14,726)</b>	<b>100%</b>	<b>89.8%</b>	<b>(15,570)</b>	<b>100%</b>	<b>76.0%</b>

Total operating expenses, as a percentage of our total revenue, increased from 76.0 percent for the year ended 31 December 2008 to 89.8 percent for the year ended 31 December 2009. This increase was primarily due to an increase in freight and transportation services, as well as by third-party charges relating to integrated logistics services, partially offset by a decrease in expenses for materials, repair and maintenance. Depreciation and amortisation and payroll and related charges as a percentage of total revenue remained relatively flat between the two periods. Other expenses represent an aggregation of separate cost items that are individually relatively insignificant to our total revenue and financial results in these periods.

The table below sets forth the breakdown of our significant operating expenses, except for third-party charges relating to integrated logistics services, as well as their value as a percentage of Adjusted Operating Expenses for the years ended 31 December 2009 and 2008:

	For the year ended 31 December			
	2009	Percent of Adjusted Operating Expenses	2008	Percent of Adjusted Operating Expenses
	(in millions of RUR)			
Freight and transportation services . . . . .	(3,832)	33.1%	(3,698)	28.7%
Payroll and related charges . . . . .	(2,437)	21.0%	(2,749)	21.3%
Depreciation and amortisation . . . . .	(2,250)	19.4%	(2,154)	16.7%
Materials, repair and maintenance . . . . .	(1,182)	10.2%	(1,902)	14.8%
Other expenses . . . . .	(1,887)	16.3%	(2,379)	18.5%
<b>Adjusted Operating Expenses<sup>(1)</sup> . . . . .</b>	<b>(11,588)</b>	<b>100%</b>	<b>(12,882)</b>	<b>100%</b>

Notes:

(1) For a reconciliation of Adjusted Operating Expenses see "Selected Consolidated Financial and Operating Information".

Adjusted Operating Expenses decreased from RUR 12,882 million for the year ended 31 December 2008 to RUR 11,588 million for the year ended 31 December 2009. This change was primarily due to a decrease in costs related to payroll, our decision to reduce expenses related to repair and maintenance of our flatcar fleet and a reduction of other expenses such as in advertising, charitable donations and consulting services.

#### *Third-party charges relating to integrated logistics services*

For the year ended 31 December 2009, third-party charges relating to integrated logistics services increased by RUR 450 million, or 16.7 percent, from RUR 2,688 million for the year ended 31 December 2008 to RUR 3,138 million for the year ended 31 December 2009. This increase was primarily due to the 19.3 percent increase in container transportation volumes under through-rate contracts from 176 thousand loaded TEUs for the year ended 31 December 2008 to 210 thousand loaded TEUs for the year ended 31 December 2009. As a percentage of total operating expenses, third-party charges relating to integrated logistics services increased from 17.3 percent for the year ended 31 December 2008, to 21.3 percent for the year ended 31 December 2009.

#### *Freight and transportation services*

Expenses related to freight and transportation services increased by RUR 134 million, or 3.6 percent, from RUR 3,698 million for the year ended 31 December 2008 to RUR 3,832 million for the year ended 31 December 2009. This increase was primarily due to an average increase of 8.1 percent in tariffs charged by Russian Railways for our empty runs as well as an increase in empty runs of flatcars and containers due to changes in the distribution of container flows to destinations from which we often could not find customer cargo for transportation. For example, as containerised imports from China via the Russian Far East decreased, we were not always able to find customers who needed our services for the return trips from the east. The increase in expenses was partially offset by the overall decrease in rail-based container transportation volumes by 24.2 percent as a result of the global economic downturn. As a percentage of total operating expenses, freight and transportation services increased from 23.8 percent for the year ended 31 December 2008, to 26.0 percent for the year ended 31 December 2009, remaining the largest individual cost item in our business.

#### *Payroll and related charges*

Payroll expenses decreased by RUR 312 million, or 11.3 percent from RUR 2,749 million for the year ended 31 December 2008 to RUR 2,437 million for the year ended 31 December 2009. This decrease was primarily due to the 4.9 percent decrease in the average headcount from 5,547 for the year ended 31 December 2008 to 5,274 for the year ended 31 December 2009. Moreover, during 2009, many of our employees worked part-time, allowing us to reduce our payroll expenses without significant layoffs. The average salary decreased over the same period by 1.6 percent. The decrease in the average salary resulted from a reduction of bonuses and other incentive payments typically made to the top- and mid-level management in successful years. As a percentage of total operating expenses, payroll and related charges decreased from 17.7 percent for the year ended 31 December 2008 to 16.5 percent for the year ended 31 December 2009.

*Depreciation and amortisation*

Our depreciation and amortisation expenses increased by RUR 96 million, or 4.5 percent, from RUR 2,154 million for the year ended 31 December 2008 to RUR 2,250 million for the year ended 31 December 2009. This increase was primarily due to the implementation of our capital expenditure programme pursuant to which the total amount of property, plant and equipment put into operation was RUR 3,015 million during the year ended 31 December 2009. As a percentage of total operating expenses, depreciation and amortisation expenses increased from 13.8 percent for the year ended 31 December 2008 to 15.3 percent for the year ended 31 December 2009.

*Materials, repair and maintenance*

Maintenance and repair expenses decreased by RUR 720 million, or 37.9 percent, from RUR 1,902 million for the year ended 31 December 2008 to RUR 1,182 million for the year ended 31 December 2009, primarily due to the implementation of our cost-cutting programme. To reduce our repair and maintenance costs, we conducted repair and maintenance works only in relation to those flatcars and containers that we continued to use and postponed repair and maintenance of flatcars and containers that were not in use during the global economic downturn. We also sought to maximise the use of newly acquired flatcars and containers that required lower repair and maintenance expenditures while keeping older flatcars and containers idle. Thus, flatcar repairs decreased by 29.7 percent and the average cost per repair decreased by 14.6 percent. As a percentage of total operating expenses, repair and maintenance expenses decreased from 12.2 percent for the year ended 31 December 2008 to 8.0 percent for the year ended 31 December 2009.

*Other expenses*

Other expenses decreased from RUR 2,379 million for the year ended 31 December 2008 to RUR 1,887 million for the year ended 31 December 2009. This decrease was primarily due to the implementation of the cost-cutting programme to decrease other expenses and from changes in non-recurring expenses, such as the increase in gain from disposal of property, plant and equipment. As a percentage of total operating expenses, other expenses decreased from 15.2 percent for the year ended 31 December 2008 to 12.9 percent for the year ended 31 December 2009.

***Operating income***

Operating income decreased by RUR 3,250 million from RUR 4,924 million for the year ended 31 December 2008 to RUR 1,674 million for the year ended 31 December 2009. This decrease was due to the factors discussed above.

***Interest expense***

Interest expense increased by RUR 446 million, from RUR 499 million for the year ended 31 December 2008 to RUR 945 million for the year ended 31 December 2009. This increase was due to a significant increase in interest rates on our Five-year RUR Bonds, Series 1, as well as an increase in short-term loans during the first half of 2009. On 13 March 2009, our bondholders exercised a put option in respect of our Five-year RUR Bonds, Series 1, and, in order to attract investors to reinvest in our bond issue for two more coupon periods, we set an interest rate for the third and fourth coupon period at 16.5 percent compared with 9.5 percent interest rate set on 4 March 2008 for the first and second coupon periods. In the first half of 2009, we borrowed approximately RUR 3,000 million in short-term loans denominated in Roubles and US dollars with interest rates ranging from 13.5 percent to 18 percent per annum. These loans were repaid prior to 30 June 2009.

***Interest income***

Interest income decreased by RUR 63 million from RUR 98 million for the year ended 31 December 2008 to RUR 35 million for the year ended 31 December 2009. This decrease was primarily due to a decrease in investing activity and the non-accrual of interest on the promissory notes of Finans-Proekt since March of 2009.

***Foreign exchange gain, net***

Foreign exchange gain, net, decreased by RUR 31 million from a gain for RUR 35 million for the year ended 31 December 2008 to a gain of RUR 4 million for the year ended 31 December 2009. This decrease was primarily due to the devaluation of the Rouble against the US dollar and euro in 2009 by approximately 3 and 5 percent, respectively.

**Profit before income tax**

Profit before income tax decreased by RUR 3,790 million, or 83.2 percent, from RUR 4,558 million for the year ended 31 December 2008 to RUR 768 million for the year ended 31 December 2009. This decrease was due to the factors discussed above.

**Income tax expense**

Income tax expense decreased by RUR 809 million, or 81.9 percent, from RUR 988 million for the year ended 31 December 2008 to RUR 179 million for the year ended 31 December 2009. This decrease was primarily due to income tax due on significantly less income: profit before income tax was RUR 4,558 million for the year ended 31 December 2008 and RUR 768 million for the year ended 31 December 2009. The effective tax rate has remained relatively consistent at 22 percent for the year ended 31 December 2008 compared with 23 percent for the year ended 31 December 2009.

**Profit for the period**

Profit for the period decreased by RUR 2,981 million, or 83.5 percent, from RUR 3,570 million for the year ended 31 December 2008 to RUR 589 million for the year ended 31 December 2009. This decrease was due to the factors discussed above.

**For the years ended 31 December 2008 and 2007**

The following discussion is based on, and should be read in conjunction with, our Audited Financial Statements, included in this Prospectus beginning on page F-1.

The following table sets forth our consolidated statement of comprehensive income for the years ended 31 December 2008 and 2007:

	<b>For the year ended 31 December</b>			<b>Year on year percent change</b>
	<b>2008</b>	<b>2007</b>	<b>Year on year change</b>	
	(in millions of RUR)			
<b>Revenue</b> . . . . .	<b>20,494</b>	<b>13,375</b>	<b>7,119</b>	<b>53.2%</b>
Operating expenses, net. . . . .	(15,570)	(10,686)	(4,884)	45.7%
<b>Operating income</b> . . . . .	<b>4,924</b>	<b>2,689</b>	<b>2,235</b>	<b>83.1%</b>
Interest expense . . . . .	(499)	(31)	(468)	1,509.7%
Interest income . . . . .	98	115	(17)	(14.8)%
Foreign exchange gain/(loss), net. . . . .	35	(38)	73	192.1%
<b>Profit before income tax</b> . . . . .	<b>4,558</b>	<b>2,735</b>	<b>1,823</b>	<b>66.7%</b>
Income tax expense. . . . .	(988)	(801)	(187)	23.3%
<b>Profit and comprehensive income for the year</b> . . . . .	<b>3,570</b>	<b>1,934</b>	<b>1,636</b>	<b>84.6%</b>

**Revenue**

The following table sets forth the breakdown and relative contribution of the components of our total revenue for the years ended 31 December 2008 and 2007:

	For the year ended 31 December			
	2008	2007	Year on year change	Year on year percent change
	(in millions of RUR)			
Rail-based container shipping services . . . . .	9,686	8,451	1,235	14.6%
Integrated logistics services . . . . .	4,769	196	4,573	2,333.2%
Terminal services and agency fees . . . . .	2,369	2,124	245	11.5%
Truck deliveries. . . . .	1,662	1,183	479	40.5%
Freight forwarding and logistics services . . . . .	1,604	1,205	399	33.1%
Bonded warehousing services. . . . .	299	132	167	126.5%
Other . . . . .	105	84	21	25.0%
<b>Total revenue . . . . .</b>	<b><u>20,494</u></b>	<b><u>13,375</u></b>	<b><u>7,119</u></b>	<b>53.2%</b>

Total revenue increased by RUR 7,119 million, or 53.2 percent, from RUR 13,375 million for the year ended 31 December 2007 to RUR 20,494 million for the year ended 31 December 2008. This increase was primarily due to the high demand for our key services specifically the development of integrated logistic services. Revenue from rail-based transportation services increased by 14.6 percent from RUR 8,451 million to RUR 9,686 million, revenue from integrated logistic services increased by 2,333.2 percent from RUR 196 million to RUR 4,769 million, revenue from terminal services (including agency fees) increased by 11.5 percent from RUR 2,124 million to RUR 2,369 million, revenue from truck deliveries increased by 40.5 percent from RUR 1,183 million to RUR 1,662 million and revenue from freight forwarding and logistics services increased by 33.1 percent from RUR 1,205 million to RUR 1,604 million.

The following table sets forth Adjusted Revenue for the years ended 31 December 2008 and 2007:

	For the years ended 31 December	
	2008	2007
	(unaudited)	
	(in millions of RUR)	
Total revenue . . . . .	20,494	13,375
Less third-party charges relating to integrated logistics services . . . . .	(2,688)	(105)
<b>Adjusted Revenue<sup>(1)</sup> . . . . .</b>	<b><u>17,806</u></b>	<b><u>13,270</u></b>

Notes:

(1) Adjusted Revenue is a non-IFRS measure. For additional information relating to non-IFRS measures see “Summary of Financial Information and Other Information — Additional non-IFRS Financial Information (unaudited)”.

Adjusted Revenue increased by RUR 4,536 million, or 34.2 percent, from RUR 13,270 million for the year ended 31 December 2007 to RUR 17,806 million for the year ended 31 December 2008. This increase was primarily due to the 11.2 percent increase in rail container transportation volumes from 1,303 thousand TEUs for the year ended 31 December 2007 to 1,449 thousand TEUs for the year ended 31 December 2008. The increase was also due to price increases for our services due to growing customer demand.

The largest change in our revenue mix was the increased share of revenue from integrated logistics services as compared with our total revenue. This share was 23.3 percent for the year ended 31 December 2008 compared with 1.5 percent for the year ended 31 December 2007. The relative contributions of all other components to our revenue decreased due to the increase in integrated logistics services. The relative contribution of rail-based container shipping services to our revenue decreased to 47.3 percent for the year ended 31 December 2008 from 63.2 percent from the year ended 31 December 2007. The share of revenue derived from terminal services and agency fees, revenue from freight forwarding and logistics services and truck deliveries also decreased slightly to 11.6 percent, 7.8 percent, and 8.1 percent for the year ended 31 December 2008 from 15.9 percent, 9.0 percent and 8.8 percent from the year ended 31 December 2007, respectively. The share of revenue from bonded warehousing services increased from 1.0 percent for the year ended 31 December 2007 to 1.5 percent for the year ended 31 December 2008. The overall change in revenue mix that occurred for the year ended 31 December 2008 was a result of the growth in intermodal deliveries and primarily due to the commencement of provision of integrated logistics services.

*Rail-based container shipping services*

Revenue from rail-based container shipping services increased by RUR 1,235 million, or 14.6 percent, from RUR 8,451 million for the year ended 31 December 2007 to RUR 9,686 million for the year ended 31 December 2008. This increase was primarily due to the approximately 22 percent increase in prices resulting from growing demand for our container transportation services. The increase was partially offset by the decrease in container transportation volumes under itemised contracts by 6.0 percent from 1,009 thousand TEUs for the year ended 31 December 2007 to 948 thousand TEUs for the year ended 31 December 2008, which resulted from our efforts to increase the provision of integrated logistics services under through-rate contracts.

*Integrated logistics services*

Revenue from integrated logistics services increased by RUR 4,573 million, or 2,333.2 percent, from RUR 196 million for the year ended 31 December 2007 to RUR 4,769 million for the year ended 31 December 2008. This increase was primarily due to our development of integrated logistics services to meet the growing customer demand for these services, which resulted in an increase in the volume of container transportation under through-rate contracts from 16 thousand TEUs for the year ended 31 December 2007 to 175 thousand TEUs for the year ended 31 December 2008. In 2008, we entered into or renewed through-rate contracts with some of our major corporate customers such as Volkswagen and Sollers (former Severstal-Auto).

*Terminal services and agency fees*

Revenue from terminal services comprising the agency fees received from Russian Railways and payments for our ancillary services increased by RUR 245 million, or 11.5 percent, from RUR 2,124 million for the year ended 31 December 2007 to RUR 2,369 million for the year ended 31 December 2008. This increase was primarily due to an increase in both regulated tariffs and our market prices for non-regulated terminal services, which were partially offset by the decrease in container handling volumes from 1,972 thousand TEUs for the year ended 31 December 2007 to 1,899 thousand TEUs for the year ended 31 December 2008. The decrease in volume resulted from market deterioration in the fourth quarter of 2008 due to the global economic downturn as well as from continuing reductions in MDC handling, which decreased by 16.5 percent for the year ended 31 December 2008. ISO container handling increased by 0.7 percent for the same period. Regulated tariffs applicable primarily to services we rendered as an agent of Russian Railways increased by approximately 18 percent while agency fees increased by 9.5 percent from RUR 1,602 million for the year ended 31 December 2007 to RUR 1,754 million for the year ended 31 December 2008. See “*Business — Rail-based container transportation services — Terminal services*”.

Revenue from non-regulated terminal services increased by 17.8 percent from RUR 522 million for the year ended 31 December 2007 to RUR 615 million for the year ended 31 December 2008 primarily due to increases in market prices and the expansion of terminal services offered per TEU.

*Truck deliveries*

Revenue from truck deliveries increased by RUR 479 million, or 40.5 percent, from RUR 1,183 million for the year ended 31 December 2007 to RUR 1,662 million for the year ended 31 December 2008. This increase was primarily due to an increase in our own container truck deliveries which in turn was due to an increased marketing focus on “last mile” delivery services.

*Freight forwarding and other logistics services*

Revenue from freight forwarding and logistics services increased by RUR 399 million, or 33.1 percent, from RUR 1,205 million for the year ended 31 December 2007 to RUR 1,604 million for the year ended 31 December 2008. This increase was primarily due to an increase in our marketing of such services through our customer service centres. The customer service centres grew in number, accompanied by the overall growth in railway container transportation.

*Bonded warehousing services*

Revenue from bonded warehousing services increased by RUR 167 million, or 126.5 percent, from RUR 132 million for the year ended 31 December 2007 to RUR 299 million for the year ended 31 December 2008. This increase was primarily due to an increase in the number of our facilities for bonded warehousing services from three as of 31 December 2007 to five as of 31 December 2008 and in their total area from approximately 4,400 square metres as of 31 December 2007 to approximately 8,000 square metres as of 31 December 2008. The increase in facilities for

bonded warehousing services was driven primarily by increased volumes in international container transportation as well as regulation changes creating fewer obstacles for us to operate such facilities.

### Operating expenses

Our operating expenses for the year ended 31 December 2008 and 2007 were RUR 15,570 million and RUR 10,686 million, respectively.

The table below sets forth the breakdown of our significant operating expenses, as well as their value as a percentage of total operating expenses and of total revenue, for the years ended 31 December 2008 and 2007:

	For the year ended 31 December					
	2008			2007		
		Percent of operating expenses	Percent of total revenue		Percent of operating expenses	Percent of total revenue
	(in millions of RUR)					
Freight and transportation services . . . . .	(3,698)	23.8%	18.0%	(3,013)	28.2%	22.5%
Payroll and related charges . . . . .	(2,749)	17.7%	13.4%	(2,346)	22.0%	17.5%
Third-party charges relating to integrated logistics services . . . . .	(2,688)	17.3%	13.1%	(105)	1.0%	0.8%
Depreciation and amortisation . . . . .	(2,154)	13.8%	10.5%	(1,727)	16.2%	12.9%
Materials, repair and maintenance . . . . .	(1,902)	12.2%	9.4%	(1,981)	18.5%	14.8%
Other expenses . . . . .	(2,379)	15.2%	11.6%	(1,514)	14.1%	11.3%
<b>Total operating expenses . . . . .</b>	<b>(15,570)</b>	<b>100%</b>	<b>76.0%</b>	<b>(10,686)</b>	<b>100%</b>	<b>79.8%</b>

Operating expenses as a percentage of our revenue decreased from 79.8 percent for the year ended 31 December 2007 to 76.0 percent for the year ended 31 December 2008. This decrease was primarily due to an increase in our revenue for the year ended 31 December 2008 and cost management. As a percentage of total revenue, freight and transportation services, payroll and related charges, depreciation and amortisation and materials, repair and maintenance all decreased between the two periods. Other expenses represent an aggregation of separate cost items which individually are relatively insignificant to our total revenue and financial results in these periods.

The table below sets forth the breakdown of our significant operating expenses, except for third-party charges relating to integrated logistics services, as well as their value as a percentage of Adjusted Operating Expenses, for the years ended 31 December 2008 and 2007:

	For the year ended 31 December			
	2008		2007	
		Percent of Adjusted Operating Expenses		Percent of Adjusted Operating Expenses
	(in millions of RUR)			
Freight and transportation services . . . . .	(3,698)	28.7%	(3,013)	28.5%
Payroll and related charges . . . . .	(2,749)	21.3%	(2,346)	22.2%
Depreciation and amortisation . . . . .	(2,154)	16.7%	(1,727)	16.3%
Materials, repair and maintenance . . . . .	(1,902)	14.8%	(1,981)	18.7%
Other expenses . . . . .	(2,379)	18.5%	(1,514)	14.3%
<b>Adjusted Operating Expenses<sup>(1)</sup> . . . . .</b>	<b>(12,882)</b>	<b>100%</b>	<b>(10,581)</b>	<b>100%</b>

Notes:

(1) For a reconciliation of Adjusted Operating Expenses see "Selected Consolidated Financial and Operating Information".

Adjusted Operating Expenses increased from RUR 10,581 million for the year ended 31 December 2007 to RUR 12,882 million for the year ended 31 December 2008. This increase was primarily due to an increase in expenses that resulted from stronger customer demand for our integrated logistics services; an increase in expenses related to freight and transportation services that resulted from an increase in overall transportation volumes; an increase in depreciation resulting from the implementation of the capital expenditure programme in 2008; and an increase in payroll expenses driven by an increase in the average number of employees needed to service our growing transportation volumes and an increase in average wages. The increase in Adjusted Operating Expenses

was partially offset by a decline in material, repair and maintenance expenses resulting from the optimisation of our repair policy and modernisation of the rolling stock.

#### *Third-party charges relating to integrated logistics services*

For the year ended 31 December 2008, third-party charges relating to integrated logistics services increased by RUR 2,583 million, or 25.6 times, from RUR 105 million for the year ended 31 December 2007 to RUR 2,688 million for the year ended 31 December 2008. This increase was primarily due to the nearly eleven-fold increase in container transportation volumes under through-rate contracts from 16 thousand TEUs for the year ended 31 December 2007 to 175 thousand TEUs for the year ended 31 December 2008. As a percentage of total operating expenses, third-party charges relating to integrated logistics services increased from 1.0 percent for the year ended 31 December 2007 to 17.3 percent for the year ended 31 December 2008.

#### *Freight and transportation services*

Expenses relating to freight and transportation services expenses increased by RUR 685 million, or 22.7 percent, from RUR 3,013 million for the year ended 31 December 2007 to RUR 3,698 million for the year ended 31 December 2008. This increase was primarily due to the increase in rail container transportation volumes by 11.2 percent, from 1,303 thousand TEUs for the year ended 31 December 2007 to 1,449 thousand TEUs for the year ended 31 December 2008 and the increase in tariff charged by Russian Railways by approximately 18 percent. This increase was partially offset by a reduction of empty run ratio of flatcars and containers, which was due to fleet management optimisation measures. While as a percentage of total operating expenses, freight and transportation services decreased from 28.2 percent for the year ended 31 December 2007, to 23.8 percent for the year ended 31 December 2008, it did, however, remain the largest individual cost item in our business.

#### *Payroll and related charges*

Payroll expenses and related charges increased by RUR 403 million, or 17.2 percent, from RUR 2,346 million for the year ended 31 December 2007 to RUR 2,749 million for the year ended 31 December 2008. This increase was primarily due to an increase in the average headcount by 11.4 percent from 4,979 for 2007 to 5,547 for 2008 and the increase in the average salary by 20.5 percent, which, in turn, was primarily due to an increase in the performance-related incentive payments. As a percentage of total operating expenses, payroll and related charges decreased from 22.0 percent for the year ended 31 December 2007 to 17.7 percent for the year ended 31 December 2008.

#### *Depreciation and amortisation*

Depreciation and amortisation expenses increased by RUR 427 million, or 24.7 percent, from RUR 1,727 million for the year ended 31 December 2007 to RUR 2,154 million for the year ended 31 December 2008. This increase was primarily due to the significant capital expenditures undertaken in 2008 for the acquisition of rolling stock and development of terminal infrastructure. As a percentage of total operating expenses, depreciation and amortisation expenses decreased from 16.2 percent for the year ended 31 December 2007 to 13.8 percent for the year ended 31 December 2008.

#### *Materials, repair and maintenance*

Materials, repair and maintenance expenses decreased by RUR 79 million, or 4.0 percent, from RUR 1,981 million for the year ended 31 December 2007 to RUR 1,902 million for the year ended 31 December 2008. This decrease was primarily due to a 6.7 percent decrease in the number of flatcars and containers repaired due to the acquisition of new flatcars, which was partially offset by increase in average repair cost by 2.6 percent. As a percentage of operating expenses, repair and maintenance expenses decreased from 18.5 percent for the year ended 31 December 2007 to 12.2 percent for the year ended 31 December 2008.

#### *Other expenses*

Other expenses increased by RUR 865 million, or 57.1 percent, from RUR 1,514 million for the year ended 31 December 2007 to RUR 2,379 million for the year ended 31 December 2008, primarily due to an increase in expenses attributable to consulting services, rent and provisions for tax liabilities. As a percentage of total operating expenses, other expenses increased from 14.1 percent for the year ended 31 December 2007 to 15.2 percent in year ended 31 December 2008.



### ***Operating income***

Operating income increased by RUR 2,235 million from RUR 2,689 million for the year ended 31 December 2007 to RUR 4,924 million in year ended 31 December 2008. This increase was due to the factors discussed above.

### ***Interest expense***

Interest expense increased by RUR 468 million from RUR 31 million for the year ended 31 December 2007 to RUR 499 million for the year ended 31 December 2008. This increase was primarily due to coupon payments on our Five-year RUR Bonds, Series 1, which we issued during 2008 and increased expenses on our finance lease obligations incurred in connection with the expansion of our flatcar fleet. See “— *Capital resources*”.

### ***Interest income***

Interest income decreased by RUR 17 million from RUR 115 million for the year ended 31 December 2007 to RUR 98 million for the year ended 31 December 2008. This decrease was primarily due to a decrease in cash balances in our bank deposit accounts because cash was used to finance our investment programme.

### ***Foreign exchange gain, net***

Foreign exchange gain, net, increased from a loss of RUR 38 million for the year ended 31 December 2007 to a gain of RUR 35 million for the year ended 31 December 2008. This increase was primarily due to the fluctuations in exchange rates between the Rouble, US dollar and euro, as the Rouble weakened in relation to the US dollar and euro by 20 percent and 15 percent, respectively, between the years ended 31 December 2008 and 2007. At the same time, our foreign currency denominated financial assets generally exceeded our foreign currency denominated financial liabilities.

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

Profit before income tax increased by RUR 1,823 million, or 66.7 percent, from RUR 2,735 million for the year ended 31 December 2007 to RUR 4,558 million for the year ended 31 December 2008. This increase was due to the factors discussed above.

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

Income tax expense increased by RUR 187 million, or 23.3 percent, from RUR 801 million for the year ended 31 December 2007 to RUR 988 million for the year ended 31 December 2008. This increase was primarily due to income tax being due on a higher amount of income in the year ended 31 December 2008 compared with the year ended 31 December 2007. The decrease in the effective tax rate from 29 percent for the year ended 31 December 2007 to 22 percent for the year ended 31 December 2008 was primarily due to a decrease in statutory tax rate from 24 percent to 20 percent. This tax rate was substantially enacted as of 31 December 2008, and as such, the deferred tax liability as at 31 December 2008 was revalued at the new statutory tax rate of 20 percent. If the statutory tax rate had remained consistent, the decrease in the effective tax rate would have been marginal.

### ***Profit for the period***

Profit for the period increased by RUR 1,636 million, or by 84.6 percent, from RUR 1,934 million for the year ended 31 December 2007 to RUR 3,570 million for the year ended 31 December 2008. This decrease was due to the factors discussed above.

## **LIQUIDITY AND CAPITAL RESOURCES**

As of 30 June 2010, we had cash and cash equivalents of RUR 622 million and our current assets exceeded our current liabilities by RUR 382 million.

Since the Company's inception, operations and capital expenditures have been financed primarily from internally generated cash flow from operating activities and debt financing. In 2008, we accessed the domestic debt market by issuing the Five-year RUR Bonds, Series 1. See “— *Capital Resources — Five-year RUR Bonds, Series 1*”. In 2009, we entered into a long-term loan agreement, short-term loan agreements and a number of finance lease agreements, which have been partially refinanced in June 2010 by the issuance of a RUR 3,000 million 5-year non-convertible amortising bond (the “**Five-year RUR Bonds, Series 2**”). See “— *Capital Resources — Five-year RUR Bonds, Series 2*”. In anticipation of the exercise of a put option by our bondholders related to the Five-year RUR Bonds, Series 1, in the first quarter of 2009 we borrowed approximately RUR 3,000 million through unsecured short-term

loans denominated in Roubles and US dollars with interest rates ranging from 13.5 percent to 18 percent per annum, which we repaid in 2009. Our business is asset and capital-intensive and requires substantial capital expenditures for, among other things, the purchase of flatcars and containers, the development of our rail-side terminals and investment in the expansion and modernisation of our truck fleet.

### Cash flows

The following table sets forth the principal components of our consolidated statement of cash flows for the six months ended 30 June 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007:

	For the six months ended 30 June		For the year ended 31 December		
	2010	2009	2009	2008	2007
	(unaudited)				
	(in millions of RUR)				
<b>Net cash provided by operating activities</b> . . . . .	1,071	1,076	2,168	4,864	3,711
<b>Net cash used in investing activities</b> . . . . .	(2,127)	(1,054)	(3,048)	(8,380)	(4,357)
<b>Net cash provided by financing activities</b> . . . . .	1,280	191	1,011	2,582	804
<b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .	224	213	131	(934)	158
<b>Cash and cash equivalents at the end of the period</b> . . . . .	<u>662</u>	<u>537</u>	<u>449</u>	<u>453</u>	<u>1,352</u>

#### *Cash flow provided by operating activities*

Cash flow provided by operating activities decreased by RUR 5 million, or 0.5 percent, from RUR 1,076 million for the six months ended 30 June 2009 to RUR 1,071 million for the six months ended 30 June 2010. This decrease was primarily due to a greater increase in trade and other receivables, which grew by RUR 558 million from RUR 177 million for the six months ended 30 June 2009 to RUR 735 million for the six months ended 30 June 2010, primarily due to providing our customers with deferred payment terms during the recent economic downturn. See “*Business — Customers and Sales — Pricing — Pricing during the global economic downturn*”. The growth of increase in trade and other receivables was partially offset by growth of increase in trade and other payables by RUR 469 million from a decrease of RUR 295 million for the six months ended 30 June 2009 to an increase of RUR 174 million for the six months ended 30 June 2010, which resulted from our ability to defer payments to our suppliers and service providers.

Cash flow provided by operating activities for the year ended 31 December 2009 reflected a decrease of 55.4 percent compared to cash flow from operating activities year ended 31 December 2008 due to the decrease in profit before income tax, as well as to a decrease in trade and other payables due to stricter payment conditions set by our suppliers, in particular by Russian Railways. During the global economic downturn, we became more flexible with customer payment options in order to maintain our customer base. For example, we allowed some customers who would typically be required to prepay for our services to make deferred payment while during that same period, Russian Railways, as a natural monopoly and heavily regulated entity could not provide us with the same deferred payment terms and required us to make prepayments.

Cash flow provided by operating activities for the year ended 31 December 2008 reflected an increase of 31.1 percent compared with the year ended 31 December 2007, primarily due to the increase in profit before income tax resulting primarily from our improved financial and operating performance due to favourable market conditions during the first nine months of 2008. This was partially offset by a greater increase in trade and other receivables and a decrease in accrued and other current liabilities in the fourth quarter of 2008, reflecting worsening market conditions and the resulting changes in our extended payment policy relating to some of our customers.

#### *Cash flow used in investing activities*

Cash flow used in investing activities increased by RUR 1,073 million, or 101.8 percent from RUR 1,054 million for the six months ended 30 June 2009 to RUR 2,127 million for the six months ended 30 June 2010. This increase was primarily due to the increase in capital expenditures by RUR 1,352 million from RUR 1,033 million for the six months ended 30 June 2009 to RUR 2,385 million for the six months ended 30 June 2010, reflecting the implementation of our capital investment programme.

Cash flow used in investing activities for the year ended 31 December 2009 decreased by RUR 5,332 million to RUR 3,048 million from RUR 8,380 million for the year ended 31 December 2008 due to the reduction in our capital expenditures in response to the decline in demand for rail-based container transportation services.

Cash flow used in investing activities for the year ended 31 December 2008 increased by RUR 4,023 million to RUR 8,380 million from RUR 4,357 million for the year ended 31 December 2007, due to an increase in capital expenditures from RUR 4,595 million for the year ended 31 December 2007 to RUR 8,597 million for the year ended 31 December 2008.

### Cash flow provided by financing activities

Cash flow provided by financing activities increased from RUR 191 million for the six months ended 30 June 2009, to RUR 1,280 million for the six months ended 30 June 2010. This increase was primarily due to proceeds from the issuance of the Five-year RUR Bonds, Series 2 issued in June 2010, which was offset by partial repayment of long-term loans and finance lease obligations.

Cash flow provided by financing activities decreased from RUR 2,582 million for the year ended 31 December 2008 to RUR 1,011 million for the year ended 31 December 2009. This decrease was due to the effect of issuing Five-year RUR Bonds, Series 1, during 2008.

Cash flow provided by financing activities increased from RUR 804 million for the year ended 31 December 2007 to RUR 2,582 million for the year ended 31 December 2008. This increase was primarily due to the proceeds from issuance of the Five-year RUR Bonds, Series 1 issued in March 2008.

### Capital expenditures

Our capital expenditures are primarily related to the acquisition of flatcars, containers and lifting equipment, the expansion of our truck fleet and the modernisation of our existing rail-side terminal facilities. The Board of Directors approved a capital expenditure budget of approximately RUR 15,700 million for the years 2010 through 2012, including approximately RUR 11,000 million for purchasing new flatcars, and leased flatcars, approximately RUR 1,000 million for purchasing containers, and approximately RUR 2,400 million to be invested into the terminal network. The amount that we will ultimately spend each year as part of our capital expenditure programme will depend on a number of factors, including the container transportation market development, the availability of financing and the overall economic conditions in Russia.

The following table sets forth our capital expenditures for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December					
	2010	2009	2007	2008	2009	2010E <sup>(1)</sup>	2011E <sup>(1)</sup>	2012E <sup>(1)</sup>
	(in millions of RUR)							
<b>Total capital expenditures . . . . .</b>	<b>2,492</b>	<b>1,796</b>	<b>5,607</b>	<b>9,996</b>	<b>3,361</b>	<b>5,357</b>	<b>4,101</b>	<b>6,220</b>
Purchase of flatcars . . . . .	2,046	1,573	1,043	5,075	2,666	3,836	2,704	4,496
Purchase of containers . . . . .	46	44	896	1,071	35	168	302	572
Purchase of lifting equipment . . . . .	48	—	927	149	2	120	86	187
Buildings and constructions . . . . .	142	72	1,084	3,011	462	989	806	581
Other . . . . .	210	107	1,657	690	196	244	203	384

Notes:

(1) Represents budgeted amounts under RAS.

In line with our growth strategy, and depending on overall economic conditions, we currently expect our capital expenditures for 2010 to be approximately RUR 5,400 million. Our capital expenditures for the six months ended 30 June 2010 were RUR 2,492 million. These investments were used primarily for the purchase of flatcars.

Capital expenditures in 2008 increased by RUR 4,389 million compared to capital expenditure in 2007, reflecting investment in the business based on a strong revenue growth in the previous years. In 2009, capital expenditures were reduced by RUR 6,635 million to RUR 3,361 million due to a decline in demand for container transportation services caused by the global economic downturn; however, we continued to purchase new flatcars to benefit from reduced prices and to ensure that the providers of flatcars remained in business to be able to supply the rolling stock once the demand for container transportation services begins to recover.

### Capital resources

Since the Company's inception, operations and capital expenditures have been financed primarily from internally generated cash flow and proceeds from issuing domestic debt. Our financial indebtedness consisted of outstanding bonds, bank borrowings and financial lease obligations in aggregate principal amount of RUR 7,422 million as of

30 June 2010, RUR 6,581 million as of 31 December 2009, RUR 4,277 million as of 31 December 2008 and RUR 388 million as of 31 December 2007.

As of 30 June 2010, most of our indebtedness was unsecured, with the exception of a loan in the amount of RUR 257 million, which was secured by fixed assets and has been repaid. As of 30 June 2010, we had no financial debt denominated in currencies other than Roubles and no floating-rate indebtedness.

***Five-Year RUR Bonds, Series 1***

On 4 March 2008, we issued Rouble-denominated bonds with total face value of RUR 3,000 million, which are listed on MICEX. The coupon rate for the first one-year period was set at 9.5 percent per annum, with interest being paid semi-annually. The rate of the 3-10<sup>th</sup> coupons was to be determined by us later in the first one-year period. Under the terms and conditions of the bonds, the bondholders had a put option to redeem their investment at par after the second and fourth coupon payment. The proceeds of the bond issue were used primarily to finance our capital expenditures.

On 13 March 2009, majority of the bondholders requested to redeem their bonds in accordance with the put option. We redeemed the bonds in the amount of RUR 2,902 million and re-issued them on the same day in the amount of RUR 2,855 million, net of the offering costs. The coupon for the second year, corresponding to the third and fourth coupon periods was set at 16.5 percent per annum, paid semi-annually.

In March 2010, the bondholders of RUR 2 million of bonds put these bonds back to us in accordance with the terms of the bonds. We redeemed these bonds, at par value, and then re-issued them on the same day at current market rates to various investors. The interest rate for all bonds following coupon payments (from fifth to tenth inclusive) was set at 9.5 percent per annum. There are no further put options with respect to the bonds, and accordingly these bonds have been classified as long-term debt instruments.

***Five-Year RUR Bonds, Series 2***

On 10 June 2010, we issued Rouble-denominated amortising bonds with total face value of RUR 3,000 million, which are listed on MICEX. The coupon rate was set at 8.8 percent per annum, with interest being paid semi-annually. The bonds are redeemable in four equal instalments to be paid on the dates of the seventh, eighth, ninth and tenth coupons respectively. The final maturity of the bonds falls on 4 June 2015, and there are no put options under the terms of the issue.

The proceeds from the bond issuance were used primarily to refinance our existing obligations under bank loans and purchase of flatcars from operating leases.

***Working capital***

We define our working capital as the difference between current assets and our current liabilities.

The table below sets forth the components of our working capital for the periods indicated:

	Working Capital (in millions of RUR)			
	As of			
	30 June	31 December		
	2010	2009	2008	2007
<b>Current assets</b>				
Inventory . . . . .	150	134	147	96
Trade and other receivables . . . . .	1,940	1,941	1,641	1,164
Prepayments and other current assets . . . . .	2,204	2,263	1,957	1,384
Prepaid income tax . . . . .	59	98	136	121
Short-term investments . . . . .	93	143	—	109
Cash and cash equivalents . . . . .	662	449	453	1,352
<b>Total current assets</b> . . . . .	<b>5,108</b>	<b>5,028</b>	<b>4,334</b>	<b>4,226</b>
<b>Current liabilities</b>				
Trade and other payables . . . . .	3,453	3,172	4,057	3,149
Income tax payable . . . . .	46	76	16	24
Taxes other than income tax payable . . . . .	232	170	145	137
Provisions . . . . .	—	—	30	—
Finance lease obligations, current maturities . . . . .	506	793	357	94
Accrued expenses and other current liabilities . . . . .	330	184	320	482
Dividends payable . . . . .	2	—	—	—
Deferred income . . . . .	48	60	—	—
Five-year RUR Bonds, Series 1 . . . . .	109	3,153	3,088	—
<b>Total current liabilities</b> . . . . .	<b>4,726</b>	<b>7,608</b>	<b>8,013</b>	<b>3,886</b>
<b>Working capital</b> . . . . .	<b>382</b>	<b>(2,580)</b>	<b>(3,679)</b>	<b>340</b>

Working capital increased by RUR 2,962 million from negative working capital of RUR 2,580 million to positive working capital of RUR 382 million between 31 December 2009 and 30 June 2010. This increase was primarily due to the reclassification of the Five-year RUR Bonds, Series 1 from short- to long-term debt.

Between 2008 and 2009, working capital increased by RUR 1,099 million, from negative RUR 3,679 million as of 31 December 2008 to negative RUR 2,580 million as of 31 December 2009. This increase was primarily due to an increase in trade and other receivables from RUR 1,641 million to RUR 1,941 million between 31 December 2008 and 31 December 2009, due primarily to the sale of a plot of land and a sale and leaseback transaction in December 2009, as well as a decrease in trade and other payables from RUR 4,057 million as of 31 December 2008 to RUR 3,172 million as of 31 December 2009, due to a decrease in the acquisition of fixed assets and our suppliers reducing the length of the credit period afforded to us during the global economic downturn.

Between 2007 and 2008, working capital decreased by RUR 4,019 million, from RUR 340 million as of 31 December 2007 to negative working capital of RUR 3,679 million as of 31 December 2008. This decrease was primarily due to the issuance in 2008 of the Five-year RUR Bonds, Series 1 in the amount of RUR 3,000 million to finance capital expenditures and an increase in other trade payables from RUR 3,149 million as of 31 December 2007 to RUR 4,057 million as of 31 December 2008, which increased due to the growth in operating activity and the significant growth of our integrated logistics services and related costs.

#### Off-balance sheet arrangements

As at 30 June 2010, we had no material off-balance sheet arrangements.

### Contractual obligations and commercial commitments

The following table sets forth our aggregate maturities of our debt, operating leases and other long-term obligations as of 30 June 2010 and for the five years subsequent to 31 December 2010 and thereafter:

	For the year ending 31 December						Total
	2010	2011	2012	2013	2014	2015	
	(in RUR million)						
Borrowings <sup>(1)</sup> . . . . .	—	—	—	3,750	1,757	750	6,257
Financial lease obligations . . . . .	265	635	540	—	—	—	1,440
Operating leases . . . . .	102	158	1	1	1	1	264

Note:

(1) Repayment of principal maturities of the Five-year RUR Bonds, Series 1 and Series 2, and long-term bank loans.

As of 30 June 2010, we had contractual obligations related to future capital expenditures in a total amount of RUR 1,941 million, primarily related to the purchase of flatcars and containers. The majority of these obligations are expected to be paid off by the end of 2010.

### Quantitative and qualitative disclosures about market risk

Our exposure to market risk is a function of our borrowings as well as operational activities which span different currencies. We face credit risk, foreign exchange risk, interest rate risk and liquidity risk, as described below.

#### Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to us. Our exposure to credit risk arises primarily with respect to agency fees from Russian Railways that is also our main debtor, to which 31 percent of our total receivables are attributable, as of 30 June 2010.

As of 31 December 2009, 62 percent of the total net amount of trade and other receivables related to our five largest customers, while 16 percent of the total net amount of trade and other receivables related to Russian Railways. In order to manage our exposure to credit risk, we regularly monitor the status of accounts receivable and the credit worthiness of our customers and require prepayments from the majority of our customers. Credit terms that are established for the most significant customers are reviewed and approved by management. Credit sales are offered only to our most significant customers with proven credit histories. Sales to other customers are made on a prepayment basis. Although, during the recent economic downturn we allowed a greater number of our customers to defer their payments for our services, as the markets began to recover, we began to offer fewer payment deferrals to our customers.

We do not hedge our credit risk. The carrying amount of accounts receivable, net of provision for impairment of receivables, 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 us beyond the provision already recorded in our financial statements.

The credit risk on liquid funds is limited because these funds are placed only with financial institutions well-known to us and primarily on a short-term basis. As of 30 June 2010, 89 percent of total cash and cash equivalents were held with one bank, TransCreditBank, a Russian Railways' subsidiary and a related party. See "Related Party Transactions".

We are also exposed to credit risk in respect of our investments in the promissory notes of LLC "Finans-Proekt". We received a guarantee with respect to these promissory notes from TransCreditBank, our related party. See "Related Party Transactions".

#### Capital risk management

We manage our capital to ensure that we will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance.

Our capital structure consists of long-term borrowings, including bank loans, finance lease obligations and the Five-year RUR Bonds, Series 1 and Series 2, and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 13 to the Audited Financial Statements.

Our management reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

**Foreign exchange risk**

We are exposed to foreign exchange risk as a result of a portion of our receivable and payable balance, which relates primarily to settlements with customers and suppliers, being denominated in currencies other than the Rouble. Foreign currency-denominated deposits also expose us to foreign exchange risk as well as several operating leases denominated in the US dollars. We do not have any formal arrangements, including derivatives, through which we hedge or otherwise mitigate foreign exchange risk. Our management aims to mitigate such risk by maintaining monetary assets and liabilities in foreign currency at broadly the same level but currently believes such risk is not significant.

The table below details our sensitivity to strengthening of the Rouble against the US dollar and euro by 10 percent all other variables being held constant. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD-impact			EUR-impact		
	2009	2008	2007	2009	2008	2007
Loss. . . . .	(19)	(3)	(12)	(11)	(16)	(2)

The weakening of the Rouble in relation to the same currencies by the same percentage will produce an equal and opposite effect on our consolidated financial statements to that shown above.

**Interest rate risk**

We finance our operations through a mixture of retained profits and bank and other borrowings. As of 30 June 2010, the carrying value of our debt, including finance lease obligations, amounted to RUR 7,422 million. In respect to the Five-year RUR Bonds, Series 1, we make semi-annual coupon payments at an annual coupon rate of 9.5 percent, which is also the effective interest rate for these bonds, until their maturity in 2013. In respect of the RUR Bonds, Series 2, we make semi-annual coupon payments at an annual coupon rate of 8.8 percent, and incur interest expense at an effective interest rate of 9.04 percent, effective until maturity in 2015. We also have a number of finance lease obligations maturing in 2010 through 2012 with an effective interest rate varying from 14.6 to 28.3 percent per annum as of 30 June 2010. See “*Note 28 of the Audited Financial Statements*”, for the sensitivity analysis.

**Liquidity risk**

Liquidity risk is the risk that we will not be able to settle all liabilities as they fall due. Our liquidity position is carefully monitored and managed by the treasury function. We have established budgeting and cash flow planning procedures to ensure we have adequate cash available to meet our payment obligations as they fall due.

We have both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities of RUR 7,422 million in total as of 30 June 2010 comprised a bond issue, bank loans and finance lease obligations. The non-interest bearing liabilities include trade and other payables and amounts payable to employees.

**Critical accounting policies**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions in certain circumstances that affect amounts reported in our Consolidated Financial Statements and notes relating thereto. Significant accounting policies we use, including the use of estimates, are presented in the Notes to the Consolidated Financial Statements included elsewhere in this Prospectus. Critical accounting policies are those that are particularly important to the presentation of our financial condition and results of operations, and require management to make subjective or complex judgments, in order to determine the certain estimates about the effect of matters that are inherently uncertain. Our management believes that, among others, the accounting policies that involve management judgments and estimates and are the most critical to understanding and evaluating our reported financial results, are those described below. For further details on our accounting policies, see the notes to the Consolidated Financial Statements.

**Depreciable lives of property, plant and equipment**

We assess the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period. Beginning from 1 January 2009 the management applies revised useful lives for certain items of property plant and equipment. The effect of changes in estimates for 2009 was RUR 88 million.

### ***Impairment of property, plant and equipment***

We review at each reporting date the carrying amounts of our property, plant and equipment to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation.

The financial markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the onset of the global economic downturn, which began to unfold in the autumn of 2007 and worsened since August 2008, when it began to impact the Russian economy. In connection with the accompanying global economic downturn and emergence of a number of indicators that our fixed assets may be impaired, we carried out a review of recoverable amount of its fixed assets as at 31 December 2009 and 2008.

As a result of the review, no impairment loss was recognised in the consolidated financial statements, except for certain individually impaired assets as disclosed in financial statements. The review revealed no significant sensitivity to decrease in estimated future cash flows or increase in the discount rate.

### ***Compliance with tax legislation***

Compliance with tax legislation, particularly in Russia, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. 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. Management believes that it has accrued all applicable taxes. Where uncertainty exists, we have accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

### ***Pension obligations***

We use actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, expected rate of return on plan assets, etc.). In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected.

### ***Investment into LLC Finance-Proekt***

In December 2007, we acquired interest-bearing (8 percent per annum) promissory notes repayable on demand after an initial fixed period expiring on 14 March 2008, issued by LLC Finans-Proekt, a related party, for a total consideration of RUR 280 million. The promissory notes are guaranteed by TransCreditBank, a related party. Using cash proceeds received from us LLC Finans-Proekt acquired 100 percent ownership in LLC Zapadny Port, a company which owns and operates a port located on the bank of the Don river in the vicinity of Rostov-on-Don. We intend to subsequently acquire the port business from LLC Finans-Proekt in exchange for its promissory notes that we hold. However, the agreement to acquire the assets of LLC Zapadny Port is not contractual. Analysing the requirements of IFRS 3 "Business combinations" and IAS 27 "Consolidated and separate financial statements" the management has concluded that as of the reporting date we do not have the power to control the financial and operating policies of LLC Zapadny Port so as to obtain economic benefits from its activities. Investment in the promissory notes of LLC Finans-Proekt is accounted for at amortised cost, less impairment (if any).



## RUSSIAN CONTAINER TRANSPORTATION MARKET

*The forecasts, estimates and predictions contained in this section, unless otherwise indicated, have been sourced from A.T. Kearney's 2010 public report titled "Russian Rail, Containers, and Growth" ("A.T. Kearney Report"). The Company believes the information, data and statistics extracted from the A.T. Kearney Report to be reliable. The Company accepts responsibility for accurately reproducing such information, data and statistics and as far as the Company is aware, no facts have been omitted that would render such information misleading. The Company accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.*

### OVERVIEW

The Russian container transportation market has been growing rapidly for years, fuelled by structural improvements in the Russian economy, the development of port infrastructure and the introduction of new container lines. Prior to the global economic downturn, Russia experienced a significant increase in consumer spending power, driven by strong economic growth, high natural resource prices and capital investment which supported the growing demand for manufactured products and, in particular, consumer goods. The growing Russian economy and increasing personal wealth resulted in strong growth in the construction, wholesale and retail trade sectors. These developments contributed to growth in the demand for shipping of containerised goods, freight transportation and logistical services.

The global economic downturn that began in 2008 and continued through most of 2009 had a significant impact on international trade, the Russian economy and the demand for transportation services resulting in a significant decline in the Russian container transportation market, including a 38 percent decline in container transshipment volumes in Russian ports. Currently, there are indications that a global economic recovery is underway. In October 2010, the IMF's World Economic Outlook projected global economic growth of 4.8 percent in 2010, as compared to negative 0.5 percent in 2009. The global economic recovery is, however, not expected to be symmetrical, with emerging markets expected to grow faster than more developed economies both in terms of GDP and trade. For example, the BRIC countries are expected to recover more quickly and robustly than the more developed markets. Over the next ten years, emerging markets are expected to grow at an average annual rate of five to seven percent compared with one to two percent average annual growth rates for developed economies over the same time period, according to A.T. Kearney.

According to A.T. Kearney, the Russian container transportation market may recover from the global economic downturn quicker than the container transportation markets in most of the developed and many of the emerging market countries and experience stronger future growth due to the following factors:

- Strong historical and projected macroeconomic outlook in Russia;
- Significant potential to increase containerisation levels, considering the existing gap with current international benchmarks; and
- Public and private investment plans for the development of transport infrastructure.

### RUSSIAN MACROECONOMIC OVERVIEW

From 2000 to 2008, Russia experienced a seven percent average annual growth rate in both GDP and external trade volume. Consequently, Russia's share of world GDP (as reported by the EIU) increased from 2.6 percent in 2000 to 3.2 percent in 2008. From 2004 to 2008, Russian import volumes of goods and services grew at an average rate of 20.7 percent per year, while consumption grew at an average rate of 11.7 percent per year (as reported by the EIU).

The following table sets forth historical Russian GDP year-on-year growth and other macroeconomic indicators from 2005 to 2009:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Real GDP growth . . . . .	6.4%	7.7%	8.1%	5.6%	(7.9)%
Export volume of goods and services . . . . .	6.5%	7.3%	6.3%	0.1%	(9.2)%
Import volume of goods and services . . . . .	16.6%	21.3%	29.7%	15.2%	(14.9)%
Consumption . . . . .	11.2%	11.2%	13.8%	10.6%	(8.0)%
Nominal GDP (Bn USD) . . . . .	764.6	989.4	1,294.1	1,660.0	1,229.2

Source: EIU

As the above table illustrates, macroeconomic indicators declined in 2009 as a result of the global economic downturn. Over the next five years, however, A.T. Kearney expects Russian macroeconomic indicators to grow at a stable pace with imports having the highest growth potential.

The following table sets forth a forecast for Russian GDP year-on-year growth and other macroeconomic indicators for the period from 2010 through 2014:

	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>
Real GDP growth . . . . .	4.8%	4.0%	4.4%	4.4%	4.3%
Export volume of goods and services . . . . .	5.9%	5.9%	4.8%	4.9%	4.3%
Import volume of goods and services . . . . .	17.2%	10.5%	6.5%	7.3%	6.9%
Consumption . . . . .	4.1%	4.3%	4.3%	4.2%	4.0%
Nominal GDP (Bn USD) . . . . .	1,566.9	1,688.7	1,862.7	2,069.4	2,320.9

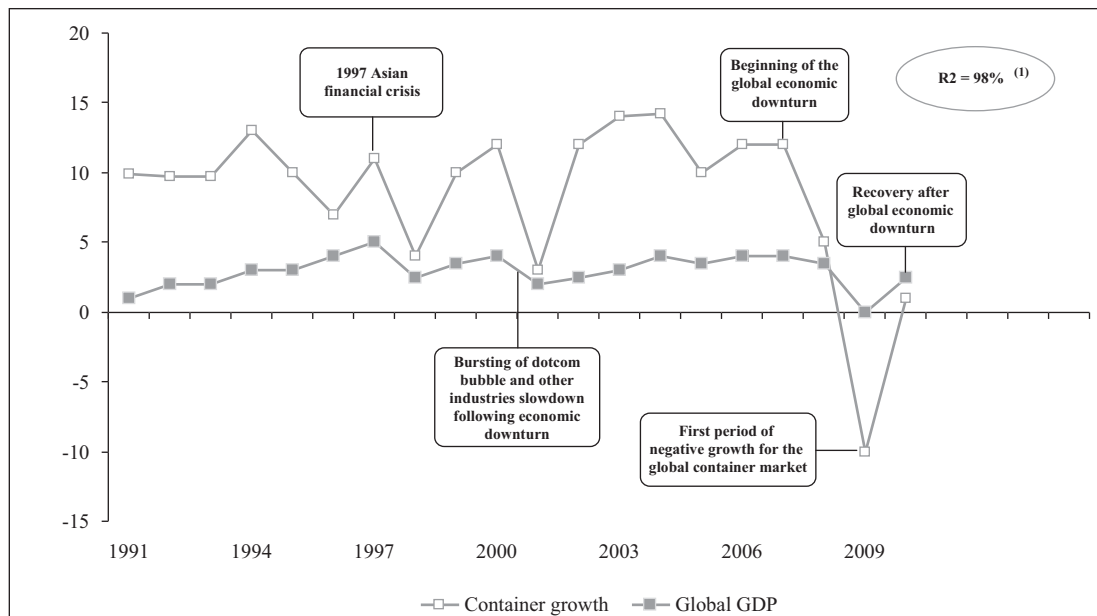
Source: EIU

**RUSSIAN CONTAINER TRANSPORTATION MARKET**

**Historical growth of container volumes in Russia**

Globally, the growth of the container market has shown a strong correlation with the growth of global GDP, with the growth in global container market rates effectively a multiple of global GDP growth over the past two decades.

The following graph illustrates the relationship between the global container market and global GDP as annual percentage changes:



(1) Based on cumulative growth

Source: A.T. Kearney Report

A strong correlation between GDP growth and the container market is also present in Russia. For example, container volumes handled at ports have historically grown at a multiple of Russia’s GDP growth.

The following table sets forth the volumes handled by Russian ports from 2004 to 2009 and the estimated volume for 2010:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010E</u>
Russian port volumes (million TEUs) <sup>(1)</sup> . . . . .	1.4	1.9	2.4	2.7	3.4	2.1	2.7
Russian port volumes growth . . . . .		35.7%	26.3%	12.5%	25.3%	(38.2%)	28.6%
Russian real GDP growth <sup>(2)</sup> . . . . .	–	6.4%	7.7%	8.1%	5.6%	(7.9%)	

Source: (1) A.T. Kearney Report

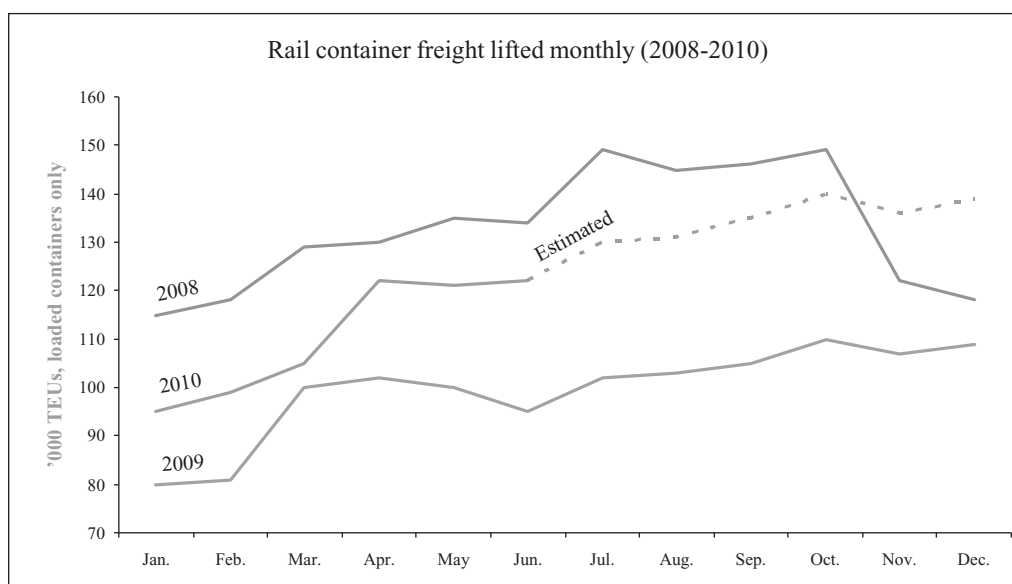
(2) EIU

The above table illustrates the volumes handled by Russian ports. From 2004 to 2008, Russian port volumes grew at a CAGR of 25 percent. In 2009, as a result of the global economic downturn, port volumes declined by 38 percent. For 2010, A.T. Kearney estimates projected Russian port volumes growth of 29 percent.

From 2005 to 2008, rail container transportation volumes grew at a CAGR of 13 percent as compared to a CAGR of 2 percent for overall rail transportation. Rail container freight increased by 43 percent from 1.7 million TEUs lifted in 2005 to 2.5 million TEUs in 2008, including empty containers. The growth was primarily driven by import and export flows and was supported by a strong Russian economy, development of container handling infrastructure and the growth of the third-party logistics provider market.

Though rail container transportation was affected by the global economic downturn, decreasing by 21.7 percent from 2.5 million TEUs in 2008 to 1.9 million TEUs in 2009, A.T. Kearney predicts that container transportation volumes will reach pre-downturn levels in 2011, driven by the recovery of the Russian economy. Expectations of improved rail container traffic in Russia are supported by signs of recovery within the industry during the first and second quarters of 2010. Monthly container transportation volumes in 2010 have been gradually approaching those of 2008.

The following graph illustrates the monthly volume of rail container freight lifted for the years 2008, 2009 and 2010 (with the remainder of 2010 forecasted by A.T. Kearney):



Source: A.T. Kearney Report

A.T. Kearney expects rail container transportation volumes to grow at a CAGR of nine percent from 2009 to 2015. This growth rate would result in 3.28 million TEUs (including empty containers) lifted in 2015. Loaded rail container volumes are expected to grow at a CAGR of ten percent over the period from 2009 to 2015, reaching 2.15 million TEUs in 2015.

The following table sets forth the growth in rail container transportation in Russia by type from 2006 through 2009 and estimated growth through 2015 (loaded containers):

	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	CAGR 2006-2015
	('000 TEUs)										
Domestic . . . . .	546	567	594	498	620	660	705	756	814	872	10%
Import . . . . .	229	350	478	207	347	383	422	455	489	526	17%
Export . . . . .	317	344	413	413	418	447	477	508	541	574	6%
Transit . . . . .	96	125	118	91	126	132	141	149	163	176	12%
<b>Total . . . . .</b>	<b>1,188</b>	<b>1,386</b>	<b>1,603</b>	<b>1,209</b>	<b>1,511</b>	<b>1,622</b>	<b>1,745</b>	<b>1,868</b>	<b>2,007</b>	<b>2,148</b>	<b>10%</b>

Source: A.T. Kearney Report

## Drivers of future growth in the Russian container market

A.T. Kearney predicts that the Russian container market will continue to grow as a result of the global and Russian macroeconomic recovery, the significant potential for increased containerisation levels in Russia and the infrastructure investment programs of the Russian government and private investors.

### *The macroeconomic recovery*

During the period from 2000 to 2008, Russia experienced a seven percent average annual growth rate in both GDP and external trade volume. Consequently, Russia's share of world GDP, as reported by EIU, increased from 2.6 percent in 2000 to 3.2 percent in 2008. While GDP growth in 2009 was negatively impacted by the global economic downturn, there are indications that growth has resumed in 2010, with the IMF's World Economic Outlook in October of 2010 projecting Russian economic growth of four percent in 2010, as compared to negative 7.9 percent in 2009.

A.T. Kearney predicts that over the next ten years, Russian macroeconomic indicators are expected to grow at a stable pace with imports having the highest growth potential. A.T. Kearney also predicts that imports will continue to be a major driver of containerisation in Russian ports.

### *Growth potential in Russian containerisation levels*

Maritime exports and imports of general cargo in most developed countries as well as Brazil, China and India are characterised by a high level of containerisation. Russia's level of containerisation is still appreciably below this level. Additionally, most markets saw a further increase of containerisation levels in 2007 and 2008 while Russia's port containerisation level remained constant at approximately 35 percent of general cargo. China, Brazil and India each have higher containerisation rates than Russia, with China as the world's leader in containerised general cargo as a result of its significant export-oriented manufacturing sector. Both Brazil and India have port containerisation levels of more than 50 percent due to developed container-handling infrastructure. A.T. Kearney predicts that over the next five years, Russia could bridge some of the gap between itself and the other BRIC countries, increasing its ports containerisation levels to between 40 and 50 percent.

The following table sets forth the comparative levels of port containerisation as a percentage of general cargo of China, Europe, the United States, Brazil, India and Russia for 2008:

	<u>China</u>	<u>Europe</u>	<u>United States</u>	<u>Brazil</u>	<u>India</u>	<u>Russia</u>
Containerised cargo as a percentage of general freight <sup>(1)</sup> . . . . .	73.0%	71.7%	68.8%	65.1%	54.2%	35.3%

(1) Weight of freight transported in containers divided by total weight transported excluding bulk and liquid freight

Source: A.T. Kearney Report, based on 2008 data

### *Investments in port infrastructure*

The availability and quality of container-related infrastructure and a well-developed network of inland distribution is an essential element of the container transportation market. This infrastructure network includes container terminals, both at ports and inland, road and rail connections and efficient intermodal transfer points. For example, Brazil and India made significant investments in their container-handling infrastructure, leading to an increase in their container traffic. Many major Russian ports currently have plans to expand their container-handling capacity, which could facilitate further growth of container volumes. According to A.T. Kearney, leading stevedoring companies and port authorities have announced investment plans in Russia, which, if realised, could increase overall capacity of Russian container port terminals by more than 50 percent by 2012 and by more than 100 percent by 2020.

The Russian government also plans to further develop Russia's freight transportation infrastructure. Under the "Federal Special Purpose Programme "Development of Russian Transportation System in 2010-2015", significant funds are to be allocated to the development of port infrastructure. The programme provides for the investment of RUR 630.7 billion in sea transport infrastructure and RUR 206.3 billion in internal waterways infrastructure in 2010-2015. In particular, the programme includes the development of ports in Baltiysk, Murmansk, Ust-Luga, Novorossyisk, Olya, Vostochny, Nakhodka and Vanino as well as the development of rail and road connections to these ports.

According to A.T. Kearney, private operators are constructing or refurbishing inland rail-side container terminals, which could facilitate steady growth in container flows.

### **Russian inland container transportation infrastructure**

Price, speed of delivery, reliability and flexibility of service are key factors in the decision between rail or road for inland container transportation. The relative significance of each factor depends on the specifics of the industry. For example, food retailers dealing with products with a short shelf life will focus on the speed of delivery.

Of the four factors listed above, many shippers focus on price as the key factor when determining which mode of transport to use. This price sensitivity ultimately benefits rail for long-distance transportation, as rail freight is more cost competitive for distances greater than approximately 1,000 kilometres. For shorter shipping distances, rail becomes less competitive, due to a high share of costs attributed to “origination and completion” operations when compared to road.

### **RUSSIAN RAIL CONTAINER TRANSPORTATION MARKET**

According to A.T. Kearney, rail will benefit from growing inland container transportation demand due to:

- The significance of rail for the Russian economy;
- Significant potential to increase share of containerised cargo, considering the existing gap with international benchmarks;
- Ongoing liberalisation of the rail industry (resulting in increased competition and flexibility of rail tariffs);
- Russian government commitment along with private investments to develop rail infrastructure; and
- Development of the flatcar fleet.

### **Significance of rail for the Russian economy**

From 2000 to 2008, rail freight transportation volumes in Russia grew at an average annual rate of six percent, whereas road freight transportation volumes increased by four percent over the same period. A.T. Kearney predicts growth in rail freight transportation volumes to continue, albeit at a slower pace. The growth is expected to be primarily due to the growth of domestic transportation and export volumes of ferrous metals, construction materials and chemicals, all major industries that use rail freight transportation services, as well as imports, especially as it relates to fast moving consumer goods, auto parts and manufactured goods.

Russia is the largest country in the world by landmass and is characterised by long distances between population centres, suppliers of raw materials and their intermediate or end customers. The size of Russia has affected the development of Russia’s transportation infrastructure and partly explains the dominant position of rail transport, which, excluding pipelines, accounted for approximately 88 percent of total transport volumes in 2008. Russia’s approximately 85,000 kilometre-long national railway network is the second longest in the world after the United States and the world’s third largest railway in terms of freight volume.

The Russian economy is largely dependent on rail. Combined with Russia’s large size, production facilities are concentrated in a number of industrial clusters across the country and rely heavily on the transportation infrastructure. Moreover, certain locations have poor accessibility by road due to climate conditions and geography. For such regions, rail is the only reliable transportation mode. In many areas that do have road infrastructure, the roads are insufficient and in poor condition, resulting in the heavy use of rail transport. All of these factors have led to the significant role of rail transport in the Russian economy.

The overall share of freight transported by rail in Russia is 43 percent, compared to 38 percent in the United States, 19 percent in China and 11 percent on average across the European Union.

The following table sets forth the volume of freight transported by transport mode in billion tonne kilometres in Russia versus the EU, the United States and China:

Transport Mode	EU <sup>(1)</sup>	United States <sup>(1)</sup>	China <sup>(1)</sup>	Russia <sup>(2)</sup>
	(billion tonnes kilometres)			
Air . . . . .	3	15	—	—
Inland Waterways . . . . .	145	472	1,112	64
Pipelines . . . . .	124	814	302	2,464
Rail . . . . .	443	2,657	2,657	2,116
Road . . . . .	1,878	1,923	1,209	216
Sea . . . . .	1,498	481	8,540	84
<b>Total . . . . .</b>	<b>4,091</b>	<b>6,362</b>	<b>13,820</b>	<b>4,944</b>
<b>Share of rail . . . . .</b>	<b>10.8%</b>	<b>41.8%</b>	<b>19.2%</b>	<b>42.8%</b>

(1) Figures for EU, United States and China are for 2006.

(2) Figures for Russia are for 2008.

Source: A.T. Kearney Report

**Russian rail containerisation levels are low compared to other countries**

In Russia, the share of containers in overall rail freight lifted (excluding oil and coal) is low compared to other countries. In 2008, as a percentage of total rail freight handled, containerised rail freight made up 40.6 percent in the United Kingdom, 17.9 percent in the United States, 16.0 percent in India and only 2.5 percent of total rail freight handled in Russia.

The following table sets forth the proportion of rail containerised cargo in the indicated countries for 2008, excluding oil and coal, as a percentage of total rail cargo:

	2008						
	UK	United States	India	Europe	China	Brazil	Russia
Proportion of containerised freight transported by rail . . . . .	40.6%	17.9%	16.0%	14.0%	4.8%	4.8%	2.5%

Source: A.T. Kearney Report

Russia has significant room for growth in rail containerisation levels. According to A.T. Kearney, the predicted increase in export and import transportation as well as significant domestic volumes will result in increased investment in container terminals and other transport infrastructure. Automotive and chemical industries, two of the largest customers of container transportation services, are expected to experience strong growth, according to A.T. Kearney.

The following table sets forth the comparative containerisation levels in various types of freight and their expected levels in 2015:

Industry	Containerisation level <sup>(1)</sup>	
	2009	2015
Automotive parts and components . . . . .	23.6%	37.7%
Chemicals . . . . .	9.1%	10.6%
Construction materials . . . . .	2.4%	3.9%
Ferrous metals . . . . .	1.7%	1.9%
Food . . . . .	7.6%	7.0%
Machinery and equipment . . . . .	21.8%	25.3%
Non-ferrous metals . . . . .	24.4%	27.5%
Non-food . . . . .	35.4%	39.8%
Pulp and paper . . . . .	40.5%	42.3%

Note:

(1) Based on freight lifted, all types of cargo, excluding coal and oil.

Source: A.T. Kearney Report

### Liberalisation of the rail industry

Railway reform in Russia, which began in 2001, is in its third and final stage. Setting up the Company and OJSC Freight One as independent companies were key milestones in the development of a competitive environment in freight transportation. The Company was created in 2006 to serve a niche segment of the container transportation market and to compete effectively with other market players.

The liberalisation of rail container transportation has had the added effect of removing Tariff 10-01 as the benchmark for container transportation prices (see “*Regulation of Railway Transportation in Russia — Regulation of Railway Tariffs*”). As a result, rail container operators have more flexibility in setting prices. The structure of the tariff for rail container transportation is different from other rail segments, with a lower share of “fixed” charges for infrastructure and locomotive use. According to A.T. Kearney, the share of the total container tariff attributable to rail container operators, including railcar charges and empty runs, accounts for approximately 41 percent, while the remainder is charged by Russian Railways for infrastructure and locomotive services.

This tariff structure affects the development of the industry in two ways. First, operators have more incentives and opportunities to compete effectively with each other and to optimise their transportation routes, thus minimising empty runs. Second, operators have more flexibility and can adapt their prices to market conditions, thus strengthening their positions in competing with other modes of transportation.

### Development of rail infrastructure

In an effort to eliminate the creation of bottlenecks (particularly at the Russian end of transport corridors) caused by limited container terminal capacity, the Russian government developed the 2030 Development Strategy to improve rail, road and port infrastructure and to remove growth constraints on the supply side.

The Russian government is planning to invest approximately RUR 2,000 billion in the construction of new rail track and the modernisation of existing rail infrastructure within the next five years, according to A.T. Kearney. These investments are deemed necessary due to the high utilisation rates of rail infrastructure in Russia, which are among the highest in the world.

In addition to rail track, rail-side container terminals are an essential part of rail infrastructure, which itself is critical for intermodal transportation. Multi-modal terminals are necessary both in ports and inland for onward distribution. In 2005, Rail-linked multi-modal terminal throughput at ports represented 14 percent of all multi-modal container terminal throughputs across the Russian rail network. In 2006, Russian Railways contributed 47 inland terminals (one of which was subsequently divested) to the Company for common use as a contribution to the Company’s share capital. According to A.T. Kearney, the Company is currently the market leader by terminal throughput and owns major terminals along many of Russia’s key international rail container corridors and across the domestic rail network. In both 2007 and 2008, approximately 5.2 million TEUs were handled by rail-side container terminals. This number dropped to 4.0 million TEUs in 2009 due to the global economic downturn.

### Development of flatcar fleet

According to A.T. Kearney, current flatcar manufacturing capacity in Russia is sufficient to meet the growing demand for flatcars in Russia. A significant number of flatcars are expected to be retired from 2010 to 2015 due to the age of the fleet and requirements of technical regulations. The current fleet comprises nearly 42,000 flatcars, which is equivalent to 122,000 TEUs.

The following table sets forth the total Russian flatcar fleet over the next five years necessary to meet projected demand:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>CAGR</u>
<b>Total (including cumulative required purchases) . . . . .</b>	<b>40,520</b>	<b>42,692</b>	<b>45,733</b>	<b>49,259</b>	<b>52,994</b>	<b>56,839</b>	<b>7%</b>

Source: A.T. Kearney Report

A.T. Kearney estimates that demand for new flatcars will be around 5,500 flatcars per year from 2011 through 2015. By 2015, an additional 15 percent of the existing fleet will have to be written off.

According to A.T. Kearney, the major flatcar manufacturers in Russia are Abakanvagonmash, Altayvagon, Dneprovagonmash, Kryukovskiy Vagongstroitelny zavod, Poltavkhimmash and Azovmash, Ruzkhimmash, Stakhanovskiy vagonostroitelny zavod, Transmash, Zavod Metallokonstrukciy. In 2006, 2007 and 2008 the

production volumes of the major flatcar manufacturers in Russia were approximately 3,810, 5,850, 8,000, respectively.

Current production levels of flatcar manufacturers averages less than 80 percent of their total production capacity. A.T. Kearney predicts demand for new flatcars per year from 2010 to 2015, will remain well below the level of actual production by Russian flatcar manufacturers in 2008. Taking into account estimated demand for new platforms, current capacity utilisation, flexibility of production and investment and production plans of flatcar manufacturers, overall manufacturing capacity appears to be sufficient to satisfy the demand for flatcars.

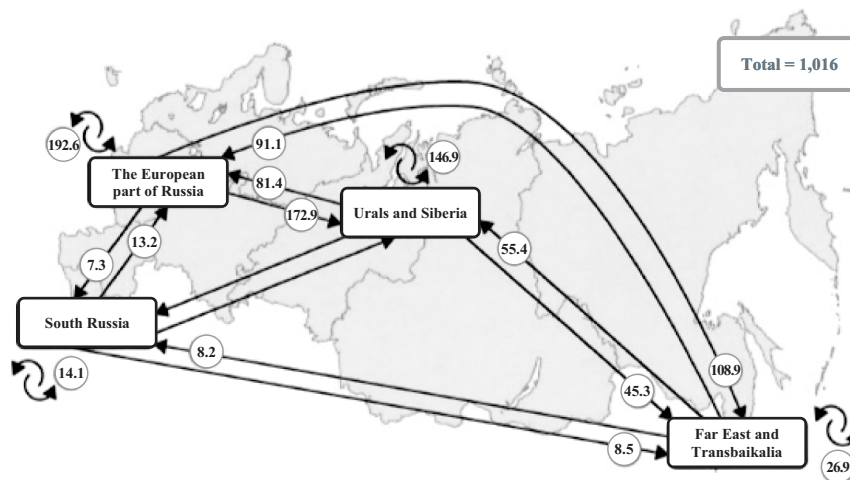
**Rail container transportation markets**

*Domestic rail container transportation market*

Domestic transportation consists primarily of transportation between the European and Siberian regions of Russia as well as transportation within the European part of Russia. From 2005 to 2008 domestic freight grew by 5 percent, driven mainly by demand from food and non-food consumer goods, pulp and paper, chemicals, construction materials, machinery and equipment and ferrous metals industries. By 2008, food and non-food consumer goods were the largest segments in domestic rail container transportation, collectively accounting for almost 40 percent of total container volumes. Domestic transportation constituted 41 percent of total transportation volumes in 2009, and A.T. Kearney does not expect its share to change significantly by 2015.

*Key routes*

The following graphic illustrates the major domestic rail container flows in 2009, including for empty containers, in thousands of TEUs:



*Key groups of freight transported*

The following table sets forth domestic rail container freight lifted by industry for 2008 and 2009 and estimated freight lifted through 2015 (loaded containers):

	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
	('000 TEUs)							
Auto and components . . . . .	36	21	33	36	40	44	49	55
Chemicals . . . . .	50	53	72	77	83	90	97	105
Construction . . . . .	77	57	78	87	99	112	125	140
Ferrous metals . . . . .	28	14	23	24	25	26	28	30
Food . . . . .	110	108	115	113	112	111	110	108
Machinery and equipment . . . . .	53	37	47	52	59	68	78	87
Non-ferrous metals . . . . .	23	16	25	26	26	27	29	30
Non-food consumer goods . . . . .	120	95	116	122	129	136	143	150
Pulp and paper . . . . .	28	30	41	52	59	67	77	87
Other . . . . .	69	68	69	69	72	75	79	82
<b>Total</b> . . . . .	<b>594</b>	<b>499</b>	<b>619</b>	<b>658</b>	<b>704</b>	<b>756</b>	<b>815</b>	<b>874</b>

Source: A.T. Kearney Report



**Chemicals.** Transport of chemicals experienced only a moderate decline during the global economic downturn and is expected to experience increased volume growth by 2015, according to A.T. Kearney.

**Construction materials.** Demand for construction materials will be driven primarily by new residential, industrial and commercial construction and the renovation of existing buildings. The renovations market is expected to be fuelled by the growth of Russian GDP per capita. Construction of 424 million square meter new residential buildings and new industrial, commercial and office premises is expected to rebound in the wake of the global economic downturn with housing expected to be built in the period from 2010 to 2015, according to A.T. Kearney. Moreover, projects such as the construction related to the Olympic Games in Sochi will increase the volume of construction materials transported in containers.

**Food.** Food rail freight is expected to increase in 2010 due to growth in containerisation levels but may gradually decline as the demand for rail transportation decrease in favour of road transportation. This decline is expected to be due to the developing distribution network in Russia, which, will effectively reduce the average transportation distance and make road more attractive than rail. With no major changes in the size of the population and physical consumption of food per capita, the decrease in the share of rail will likely result in a decrease in container rail transportation.

**Non-food consumer goods.** The demand for non-food consumer goods is expected to grow due to the growth of GDP per capita. This GDP growth should result in an increase of demand of non-food consumer goods transportation, though A.T. Kearney expects a shift from rail to road in non-food consumer goods transportation.

Collectively, food and non-food consumer goods, construction and chemicals are expected to account for approximately 60 percent of domestic rail container transportation volumes in 2015, according to A.T. Kearney.

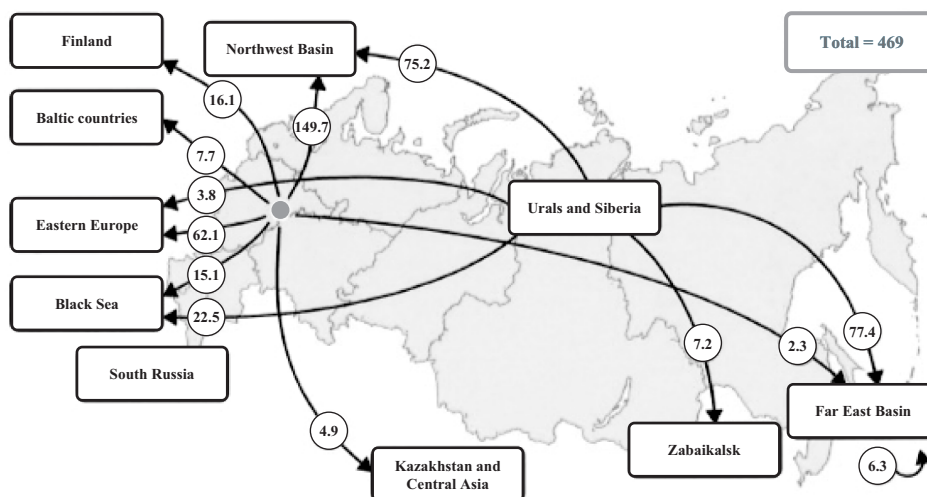
**Pulp and paper.** The demand for pulp and paper transportation is expected to be driven by the overall development of the pulp and paper industry, both in terms of volume and product structure. According to A.T. Kearney, the Russian government’s goal for the pulp and paper industry is to maximise import substitution and increase high-value-added goods production within Russia.

**Export rail container transportation market**

Container rail freight meant for export is primarily directed to the Northwest and Far East ports and to Eastern Europe. From 2005 to 2008, export transportation grew at a CAGR of 14 percent, driven mainly by ferrous and non-ferrous metals, construction materials and food. Most of the export rail container transportation in 2008 was attributed to pulp and paper, chemicals and non-ferrous metals which represented 35 percent, 17 percent and 19 percent of total export rail container transportation, respectively.

**Key routes**

The following graphic illustrates the major export rail container flows in 2008, including empty containers, in thousands of TEUs:



*Key groups of freight transported*

The following table sets forth exported rail container freight lifted by industry for 2008 and 2009 and estimated freight lifted through 2015 (loaded containers):

	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>	<u>2015E</u>
	('000 TEUs)							
Auto and components . . . . .	3	3	2	3	3	3	3	4
Chemicals . . . . .	69	85	94	101	107	114	121	127
Construction . . . . .	17	25	22	25	29	33	38	44
Ferrous metals . . . . .	46	42	44	47	50	53	56	58
Food . . . . .	3	2	3	4	4	4	5	5
Machinery and equipment . . . . .	3	3	2	3	3	3	3	4
Non-ferrous metals . . . . .	77	61	70	74	79	85	90	96
Non-food consumer goods . . . . .	3	3	3	3	3	4	4	4
Pulp and paper . . . . .	146	153	160	170	180	190	200	211
Other . . . . .	<u>47</u>	<u>35</u>	<u>18</u>	<u>18</u>	<u>19</u>	<u>19</u>	<u>20</u>	<u>21</u>
<b>Total . . . . .</b>	<b><u>414</u></b>	<b><u>412</u></b>	<b><u>418</u></b>	<b><u>448</u></b>	<b><u>477</u></b>	<b><u>508</u></b>	<b><u>540</u></b>	<b><u>574</u></b>

Source: A.T. Kearney Report

**Chemicals.** Container transport of chemicals increased by 23.2 percent in 2009 as compared to 2008. This increase was due to a rise in the volume of container shipments, partially offset by the decline in overall exports of this product. According to A.T. Kearney, the chemicals industry is expected to export more products via containers due to an improved container-handling infrastructure. This industry's overall export levels, combined with its increased containerisation levels, could result in transportation volumes of 127,000 TEUs in 2015.

**Non-ferrous metals.** Export transportation of non-ferrous metals was affected by the global economic downturn, falling by more than 15 percent in 2009 as compared to 2008 volumes. However, according to A.T. Kearney, increasing global demand for aluminium, supported by growth in containerisation levels, should bring export container transportation volumes back to pre-downturn levels in 2012. A.T. Kearney predicts non-ferrous metals transportation volumes to increase steadily through 2015, achieving a 17 percent share of the total rail container export volume.

**Pulp and paper.** Container transport of pulp and paper increased in 2009 by 8.9 percent as compared to 2008. This increase was due to a rise in the volume of container shipments, partially offset by the decline in the overall export of these products. According to A.T. Kearney, the pulp and paper industry is expected to export more products via containers due to an improved container-handling infrastructure. This industry's overall export level combined with its increased containerisation level, could result in transportation volumes of 211,000 TEUs in 2015.

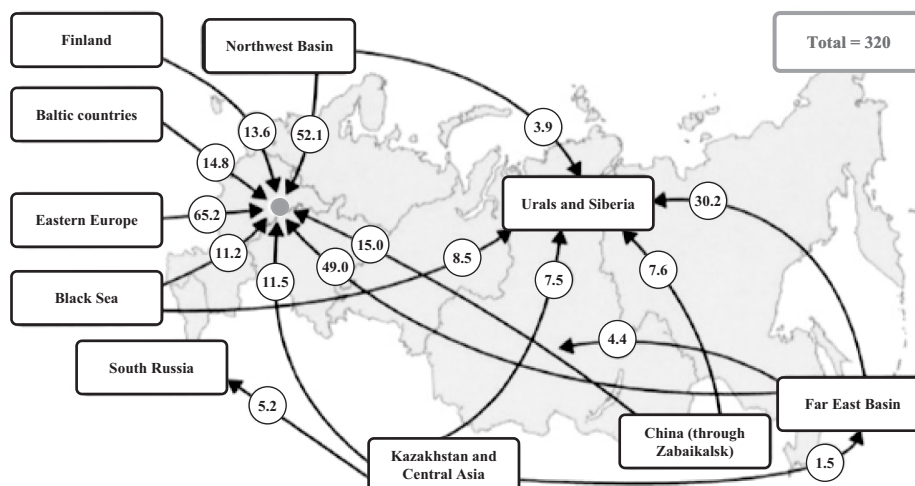
**Import rail container transportation market**

The transportation of imports primarily originates in China, South Korea, Japan and Eastern Europe. From 2005 to 2008, import container transportation grew at a CAGR of 42 percent, driven primarily by automotive parts, ferrous metals and construction materials. In 2008, automotive components made up approximately 40 percent of total container volumes, followed by chemicals at 16 percent and non-food consumer goods at 15 percent. Transportation of imports constituted 17 percent of total transportation volumes in 2009, and A.T. Kearney has estimated that it will continue to grow at a CAGR of 17 percent over the period from 2009 to 2015.

Import container transportation volumes declined during the global economic downturn, decreasing more than twofold in 2009 as compared to 2008. The decline was primarily due to a decrease of overall Russian imports which in turn was caused by a decrease in disposable income. Although import volumes of these industries decreased in 2009, container transportation for these industries are expected to increase in 2010, according to A.T. Kearney.

Key routes

The following graphic illustrates the major import rail container flows in 2009, including empty containers, measured in thousands of TEUs:



Key groups of freight transported

The following table sets forth the volume of imported rail container freight lifted by industry for 2008 and 2009 and estimated volume of imported freight lifted through 2015 (loaded containers):

	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>	<u>2015E</u>
	('000 TEUs)							
Auto and components . . . . .	184	69	152	169	191	203	217	233
Chemicals . . . . .	78	36	62	67	72	78	84	91
Construction . . . . .	28	9	17	20	23	27	32	36
Ferrous metals . . . . .	8	4	5	5	5	6	6	7
Food . . . . .	11	7	11	11	11	11	11	11
Machinery and equipment . . . . .	53	21	29	32	34	37	40	44
Non-ferrous metals . . . . .	5	3	2	3	3	3	3	3
Non-food consumer goods . . . . .	72	41	44	48	53	58	63	69
Pulp and paper . . . . .	6	3	3	4	4	4	4	4
Other . . . . .	33	15	22	24	26	27	28	28
<b>Total . . . . .</b>	<b><u>478</u></b>	<b><u>208</u></b>	<b><u>347</u></b>	<b><u>383</u></b>	<b><u>422</u></b>	<b><u>454</u></b>	<b><u>488</u></b>	<b><u>526</u></b>

Source: A.T. Kearney Report

Automotive parts and components. Automobile sales are highly correlated with GDP per capita and are therefore expected to grow steadily in the coming years. The growth of imported automotive parts will be fuelled by the increasing share of foreign cars in Russia’s total domestic fleet. A.T. Kearney expects the number of foreign automobiles built in Russia to double by 2015. This increase in automobile production in Russia combined with an increase in the fleet of imported automobiles, will lead to an increase in demand for imported spare parts. Freight related to the automotive industry that can be transported in containers include “completely knocked down” products and spare parts. As a result, the import of automotive parts and components is expected to exceed pre-downturn levels in 2012 and increase to 44 percent of total container imports by 2015, according to A.T. Kearney.

The following table sets forth the estimated output of select foreign automotive plants in Russia in 2010 and 2012:

	<u>2010</u>	<u>2012E</u>
	('000 of units)	
Renault, Nissan . . . . .	160	190
Volkswagen . . . . .	100	150
Hyundai, Kia . . . . .	50	220
PSA, Mitsubishi . . . . .	10	45
Fiat . . . . .	16	80
<b>Total</b> . . . . .	<b><u>336</u></b>	<b><u>685</u></b>

Source: A.T. Kearney Report

**Chemicals.** Chemicals are used in a wide range of industries and the demand for imported chemicals will follow the development of the overall Russian economy. Import transportation volumes are expected to increase in 2010 and continue a steady growth through 2015, resulting in chemicals making up the second largest share of import container transportation by 2015.

**Non-food consumer goods.** The demand for non-food consumer goods will be fuelled by the growth in Russian GDP per capita and disposable income. A.T. Kearney predicts transportation of non-food consumer goods to account for 13 percent of total container transportation volumes by 2015.

A.T. Kearney predicts that the relative proportions of industries driving import container transportation will remain stable through 2015 with no significant change from the proportions in 2008.

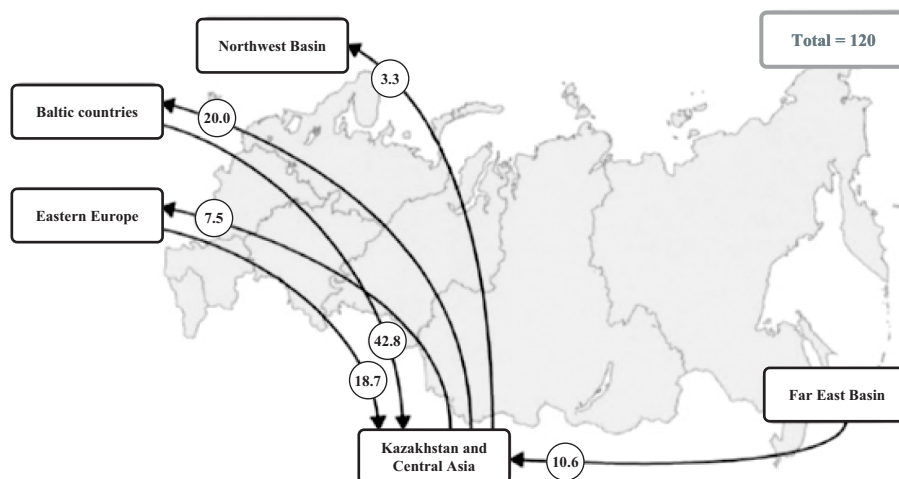
**Transit traffic rail container transportation market**

Transit traffic is defined as international transportation between two foreign countries that passes through Russia. This market has a relatively small share of the overall container transportation market in Russia, accounting for only eight percent of the overall transport market in 2009. A.T. Kearney, however, expects transit traffic to grow in response to continued economic expansion of China and the upgrade of the Russian transport infrastructure which will increase the speed and efficiency of transportation flows along the East-West transport corridor. Essentially all transit container traffic is carried by train, because the distances between major gateways make other transportation modes uneconomical.

Transit traffic is generally sensitive to changes in transport corridor economics and can switch rapidly between routes. Transit rail container flows are mostly represented by transportation between Eastern Europe and the Baltic States and Kazakhstan and Central Asia. The split of rail container volumes by industry was relatively even, with automotive parts having a slightly larger share than other industries.

**Key routes**

The following graphic illustrates the major transit rail container flows in 2008, including empty containers, in thousands of TEUs:



*Key groups of freight transported*

The following table sets forth transit rail container freight lifted by industry for 2008 and 2009, as well as estimated freight lifted through 2015 (loaded containers):

	<u>2008</u>	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>	<u>2015E</u>
	('000 TEUs)							
Auto and components . . . . .	23	19	25	26	28	30	32	34
Chemicals . . . . .	11	6	9	10	11	12	13	14
Construction . . . . .	3	5	5	5	6	6	7	7
Ferrous metals . . . . .	17	11	15	17	18	19	21	23
Food . . . . .	17	16	18	19	20	22	23	25
Machinery and equipment . . . . .	18	13	13	13	14	15	16	17
Non-ferrous metals . . . . .	3	1	2	2	3	3	3	4
Non-food consumer goods . . . . .	14	10	12	13	13	14	15	16
Other . . . . .	11	9	25	25	26	26	31	34
Pulp and paper . . . . .	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Total . . . . .</b>	<b><u>119</u></b>	<b><u>92</u></b>	<b><u>125</u></b>	<b><u>131</u></b>	<b><u>141</u></b>	<b><u>149</u></b>	<b><u>163</u></b>	<b><u>176</u></b>

Source: A.T. Kearney Report

The overall transit rail transportation market is expected to increase in 2010, driven by the increase of trade between Central Asian and Eastern European countries and the growth in overall containerisation. A.T. Kearney expects the transit rail container market to grow at a CAGR of 12 percent in the period from 2009 to 2015, with a total volume of 176,000 loaded TEUs in 2015. The split of transit rail container transportation volumes by industry will remain relatively stable with minor changes due to the difference in containerisation levels by industry. The increasing competitiveness, both in terms of cost and speed of delivery, of the TransSiberian transit route compared to sea routes is another driver of the expected increase in rail transit volumes.

**Competitive environment**

*Market shares of key players by rail freight volumes transported*

Since the Company's formation in 2006, the container transportation market has expanded to include numerous new market players, ranging from international freight-forwarders to small businesses. However, while significant investments were made by private operators and leasing companies, the Company remains the largest fleet owner in Russia with 60.0 percent of the market, which is about ten times more than its second largest competitor. Rail container transportation in Russia remains a concentrated industry, with the top six companies accounting for 70.0 percent of the market. In 2009, the six largest companies had the following market share: the Company (57 percent), Modul (6 percent), FESCO (3 percent), DV Transport (2 percent), DVTG (2 percent) and Sibur-Trans (1 percent), according to A.T. Kearney. The remaining 30.0 percent of the market is fragmented between more than 1,000 small companies.

*Access to fleet, estimates of market shares based on percent of fleet owned*

The following table sets forth fleet ownership numbers adjusted by thousands of TEUs:

	<u>October 2007</u>	<u>September 2008</u>	<u>June 2009</u>	<u>July 2010</u>
	('000 TEUs)			
TransContainer . . . . .	57	64	68	73
Goldline . . . . .	2	4	6	5
Intergroup . . . . .	1	5	5	5
TransGarant (including TG Leasing) . . . . .	1	1	5	5
Russian Troika . . . . .	3	3	3	3
Others . . . . .	<u>20</u>	<u>34</u>	<u>28</u>	<u>31</u>
<b>Total . . . . .</b>	<b><u>84</u></b>	<b><u>111</u></b>	<b><u>115</u></b>	<b><u>122</u></b>

Source: A.T. Kearney Report

**Key owners of rail-side container terminals in Russia**

The following table sets forth the ownership percentages of rail-side container terminals as well as the total volume of containers handled at rail terminals in millions of TEUs:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
TransContainer . . . . .	37%	37%	36%
Russian Railways . . . . .	17%	24%	22%
Ports . . . . .	16%	16%	14%
Other . . . . .	<u>30%</u>	<u>23%</u>	<u>28%</u>
<b>Total containers handled (millions of TEUs) . . . . .</b>	<b><u>5.3</u></b>	<b><u>5.2</u></b>	<b><u>4.0</u></b>

Source: A.T. Kearney Report

**FREIGHT FORWARDING AND INTEGRATED LOGISTICS SECTOR IN RUSSIA*****Development of freight forwarding and integrated logistics services by container rail freight operators***

The Russian logistics industry has recently undergone significant growth through further development of its four major sectors: freight transportation, freight forwarding, storage/warehousing/distribution and logistics. The growth in these sectors can be explained by positive macroeconomic conditions, infrastructure improvements and increased complexity of logistical flows leading to growing demand for value-added services. Furthermore, regulation of this industry has been supportive of competition. The delivery of integrated logistics services has become one of the key competitive advantages that container transportation operators use to attract customers. A.T. Kearney concluded that the offer of such integrated logistics services with first-and last-mile service is one of the key factors in the decision to transport by road or rail.

***Low level of outsourced logistics in Russia***

Experts estimate the level of logistics outsourcing in Russia to be approximately 30 percent, compared to 47 percent in North America, 51 percent in Latin America, 66 percent in Europe and 62 percent in Asia Pacific. A.T. Kearney predicts that this relatively low starting point represents a significant potential for growth for logistics service providers.

***Current market size and growth potential***

The following table sets forth the growth of the Russian market for freight forwarding and other value-added services in US\$ billions for 2009 and estimated growth through 2015:

	<u>2009</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>	<u>2013E</u>	<u>2014E</u>	<u>2015E</u>	<u>CAGR</u> <u>2009-2015</u>
	<i>(US\$ billions)</i>							
Freight forwarding and other high-value added services . . . . .	3.6	4.3	5.1	5.5	6.1	6.6	7.5	13%
Year-on-year growth . . . . .	—	19.4%	18.6%	7.8%	10.9%	8.2%	13.6%	

Source: A.T. Kearney Report

## BUSINESS

### OVERVIEW

We are the leading intermodal container transportation and integrated logistics solutions company in Russia, providing comprehensive container transportation and freight management services. We are the market leader in Russia by flatcar fleet size, TEUs transported by rail and rail-side container terminal throughput, and our market share in these categories as of 30 June 2010 was approximately 60 percent, 53 percent and 34 percent, respectively, according to A.T. Kearney. As of 30 June 2010, we operated approximately 25,500 flatcars. Our flatcars transported approximately 1.1 million TEUs in 2009 and 0.55 million TEUs in the first half of 2010. As of 30 June 2010, we serviced more than 300,000 routes in Russia and abroad. We own a network of rail-side container terminals located at 46 railway stations in Russia and operate one terminal in Slovakia. Our terminals, many of which are located along Russia's busiest transportation corridors, had a throughput of approximately 1.46 million TEUs in 2009 and 0.73 million TEUs for the six months ended 30 June 2010. By integrating our terminal infrastructure, nationwide sales network, transportation assets, operational knowhow and market knowledge, we provide a wide range of reliable and tailored intermodal container transportation and integrated logistics solutions to our customers throughout Russia and the CIS. We leverage our unique asset base to serve more than 200,000 customers, including approximately 20,000 regular customers, representing a range of industries, with our top ten customers contributing approximately 23 percent of the total amount billed to customers for the six months ended 30 June 2010.

Our extensive sales network, consisting of 148 offices and service centres in Russia as well as presence in the CIS, Europe and Asia, allows us to efficiently serve our existing customers and attract new customers. The close proximity of our sales network to our customers enables us to effectively cross-sell our services and provide timely responses to changes in our customers' needs.

In 2009, our revenue was RUR 16,400 million, our Adjusted Revenue was RUR 13,262 million and EBITDA was RUR 3,963 million. For the six months ended 30 June 2010, our revenue was RUR 9,942 million, our Adjusted Revenue was RUR 7,469 million and our EBITDA was RUR 1,902 million. As of 30 June 2010, our total assets were RUR 32,196 million and our total liabilities were RUR 13,558 million. For the definition and description of management's use of non-IFRS measures, including Adjusted Revenue, Adjusted Operating Expenses, EBITDA, EBITDA Margin, Adjusted EBITDA Margin and Adjusted Operating Margin, see "*Presentation of Financial and Related Information*", and for a reconciliation of these measures to IFRS line items, see "*Selected Consolidated Financial and Operating Information*".

### COMPETITIVE STRENGTHS

We believe that, due to the following key competitive strengths, we are strongly positioned to capitalise on the expected growth in Russia's container transportation market:

#### **Leading position in the Russian container transportation market**

We are the leading provider of intermodal container transportation and integrated logistics solutions in Russia according to Russian Railways. In the first half of 2010, we transported approximately 0.55 million TEUs and our terminals' throughput was over 0.73 million TEUs, which represented a market share of approximately 53 percent of all containerised cargo transported by rail in Russia and approximately 34 percent of all Russia's rail-side container terminals' throughput, according to A.T. Kearney. Our closest competitor had a seven percent share of the market in TEUs transported by rail and container throughput in the first half of 2010, according to A.T. Kearney. In the first half of 2010, we had an approximately 65 percent share of the domestic, 45 percent share of the export, 40 percent share of the import, and 19 percent share of transit, rail-based container transportation market, according to Russian Railways. We believe that, because we are the largest provider of intermodal container transportation services in Russia, our prices are often used as benchmark for other Russian operators. As the container transportation market in Russia continues to recover, we believe we are well-positioned to take advantage of the anticipated container traffic growth and strengthen our market leading position.

#### **Attractive market with strong growth potential**

We believe that the Russian container transportation market is still in relatively early stages of development and has strong growth potential due to a favourable macroeconomic outlook, comparatively low containerisation levels of Russian freight flows, as well as the Russian government's efforts to develop Russian sea ports and inland rail infrastructure.

Historically, container transportation volumes in Russia have been strongly correlated with the Russian macroeconomic situation (manifested by such indicators as GDP, external trade and consumer spending levels). Between 2000 and 2008, both GDP and external trade grew at an average rate of approximately seven percent per year, according to A.T. Kearney. In line with this trend, rail-based container transportation volumes in Russia grew at a compound annual growth rate of approximately 13 percent between 2005 and 2008, according to A.T. Kearney.

In 2010, the Russian economy began to show the signs of recovery from the recent global economic downturn. The rail-based container transportation market in Russia grew by approximately 16 percent (by TEUs transported) between the first half of 2009 and the first half of 2010, according to A.T. Kearney. Over the next five years, Russian macroeconomic indicators are expected to continue to grow, with real GDP projected to improve at a CAGR of 4.4 percent over the period of 2009 to 2013, according to EIU, and real consumer spending is expected to grow at the compound annual growth rate of 5.3 percent over the same period, according to Euromonitor. In line with this growth, rail-based container transportation volumes are expected to grow at the compound annual growth rate of up to ten percent, according to A.T. Kearney. Projected growth in container transportation volumes are expected to be driven by the following cargo types: automotive parts and components, pulp and paper, consumer goods, chemicals, machinery and equipment, according to A.T. Kearney.

We expect the relatively low containerisation of Russian transportation volumes to be another major driver of future growth in Russian container transportation. In 2008, Russia's containerisation of the total cargo transported was only seven percent compared with approximately 30 percent in China, 18 percent in India and 15 percent in the United States, according to A.T. Kearney. As Russian freight containerisation levels increase towards levels prevalent in other transportation markets, we, as the leading provider of intermodal container transportation and integrated logistics solutions in Russia, should be well-positioned to take advantage of this potential market growth.

One of the key factors affecting the growth of the container transportation market in Russia is the capacity of container transportation infrastructure at sea ports and inland. According to A.T. Kearney, infrastructure development projects planned at a number of Russian major ports, if realised, are expected to increase Russia's overall sea port container terminal handling capacity by more than 50 percent by 2012 and by more than 100 percent by 2020. In addition, the Russian government has committed to invest approximately RUR 2,000 billion over the next five years to develop Russia's rail infrastructure, according to A.T. Kearney. These infrastructure improvements, if realised, are expected to support the growth in the Russian container transportation market.

#### **Unique asset base in a market with high entry barriers**

In Russia, unlike in more developed transportation markets, an extensive asset base is often necessary to ensure the reliability and efficiency in providing intermodal container transportation and integrated logistics solutions, as well as to have the capacity available to respond to fluctuations in demand. We operate the largest fleet of flatcars and containers in Russia according to A.T. Kearney. As of 30 June 2010, our flatcar fleet consisted of approximately 25,500 flatcars, approximately 25,200 of which we owned. According to A.T. Kearney, the flatcars we operated as of 30 June 2010, accounted for approximately 60 percent of all flatcars in Russia. We also had the largest container fleet in Russia with approximately 58,400 ISO containers as of 30 June 2010.

Our intermodal container transportation operations are supported by our nationwide network of rail-side container terminals located at 46 railway stations, which is the largest terminal network in Russia by TEU throughput. Our terminal network has nationwide geographic coverage in Russia with presence in major transportation hubs, important railway junctions and on key border crossings. Our ownership of rail-side container terminals enables us to improve the efficiency of our operations by forming block-trains, shortening our flatcars' downtime and reducing empty runs. Also, our terminals enable us to provide a full range of value-added integrated logistics services, for which our customers are willing to pay a premium compared with the more traditional rail-based container transportation services.

As of 30 June 2010, we owned a fleet of 319 trucks and approximately 500 semi-trailers. Our trucks and semi-trailers provide container pick-up and delivery services, which are an essential integral part of our integrated logistics services.

We developed a proprietary IT system to optimise our asset utilisation and improve the efficiency of our intermodal container transportation and integrated logistics solutions.

We believe that it would be difficult for our competitors to acquire an asset base comparable to ours, as this would require significant capital investments, management skills and operational knowhow, good working relationships with local, regional and federal authorities, as well as a significant amount of time. Because of our unique asset base and wide geographic footprint, we believe that our market leadership in the provision of intermodal container transportation and integrated logistics solutions in Russia is sustainable.



### **Leading provider of integrated logistics services**

In the last three years, we have focused on providing our customers with integrated logistics services, which complement our more traditional terminal-to-terminal rail-based container transportation. We leverage our unique asset base and wide geographic reach to provide integrated logistics services, which include a full range of container transportation and freight forwarding services such as pick-up and delivery via truck, route planning and optimisation, customs clearance and brokerage, storage, cargo tracking and security. Our integrated service offering is flexible and can be tailored to meet the specific needs of customers. Offering these services has also enabled us to capture a greater share of our customers' total logistics budget and more deeply integrate our services into our customers' supply chains.

We first identified demand for our integrated logistics services with international automotive manufacturers operating in Russia. These manufacturers were increasingly seeking to outsource a larger share of their supply chain management to a reliable logistics provider capable of offering a broad range of integrated logistics services and ensuring "just-in-time" delivery in Russia. Since then, demand for our integrated services has grown significantly, and accordingly, our revenue from integrated logistics services has increased from 1.5 percent of total revenue in 2007 to 44 percent of our total revenue for the six months ended 30 June 2010. We anticipate that the demand for our integrated logistics services will continue to grow as the market evolves to resemble more developed markets where demand for such services is significantly greater.

### **Wide geographic footprint**

We believe that our operating and sales network is substantially larger and broader than that of any of our competitors in Russia. We operate through a network of 46 rail-side container terminals spread across Russia, located along major routes, population and freight centres, including Moscow, Saint-Petersburg, Novosibirsk, Nizhny Novgorod and Yekaterinburg, as well as at important overland border crossings, such as those between Russia and China. We also operate a terminal at Dobra in Slovakia situated at the border crossing between the EU and the CIS. Our domestic sales efforts are supported by a network of 148 sales offices and service centres and 29 regional partners throughout Russia and abroad.

We are the owner and operator of the only in-land container terminal on the Russian border with China, which is located on the main railway container transportation corridor between Russia and China. We are also engaged in negotiations to form a joint venture in Kazakhstan to jointly operate a rail-side container terminal on the Kazakh border with China. See "*— Assets — Terminals — Joint venture with Kazakh Railways*". As one of only a few companies that own or operate in-land container terminal facilities located at the railway border crossings between Russia and China, we believe that we have a competitive advantage in providing transportation and logistics services along the container-traffic corridor between China and Europe. Moreover, as of the date of this Prospectus, we are the only Russian container transportation company that has acquired a 49 percent stake in China Railway International Multimodal Transport Co., Ltd., a subsidiary of a Chinese state corporation (China Railway Container Transport Corp.) engaged primarily in rail-based container transportation, forming a strategic partnership to develop the container transportation business between Russia and China. As a result, we believe that we are in a unique position to capitalise on the anticipated growth of container traffic between Russia and China and between Europe and China.

To capture Russia-bound and transit container traffic from destinations outside of Russia, we have established a total of eight foreign representative offices in each of China, Kazakhstan, South Korea, Japan, Uzbekistan, Ukraine, Abkhazia and Latvia, one joint venture with an international partner in Finland, and two strategic partnerships in each of China and Germany.

As a result of possessing such a wide geographic network of sales offices and terminals, we are able to originate container freight from a diverse base of shippers and deliver to over 300,000 routes throughout Russia and abroad, thus significantly reducing our dependence on any single destination, region or route.

### **Broad and diversified customer base**

Our customer base consists of more than 200,000 customers, including approximately 20,000 regular customers active in Russia and the CIS. Our customers range from small Russian shipping agents to major multi-national corporations operating in various sectors of the Russian economy including automotive, manufacturing, pulp and paper, non-ferrous metals and consumer goods.

Our customers include major Russian and multi-national corporations, such as Volkswagen, Rusal, Ilim Group, General Motors, Kia Motors, Sollers (formerly Severstal Auto), Samsung and Pepsico, as well as major

international and domestic shipping and logistics companies, or their subsidiaries, such as Maersk, MCL Shipping and Unico Logistics.

The breadth and diversity of our customer base limits our exposure to any particular customer or industry. Our 10 largest customers accounted for approximately 23 percent of the total amounts billed to customers for the six months ended 30 June 2010. No single non-related party customer accounted for more than 6.5 percent of the total amounts billed to customers in the first half of 2010.

In addition, the size and breadth of our customer base and strength of our customer relationships provides opportunities to cross-sell our broad range of services, including our high value integrated logistics services to our existing customers.

### **Experienced management team and high corporate governance standards**

Our management team has substantial experience in the Russian railway industry, particularly in the container transportation sector. Our CEO, Mr. Baskakov, has been involved in the railway and container transportation industry for approximately 25 years. Many members of our management team have been with TransContainer since its establishment as a branch of Russian Railways in 2003 and prior to that were employed in the Russian railway industry. As we continued to grow, new managers joined our management team from executive positions at Russian Railways and leading companies in other sectors of the economy.

We strive to adhere to international corporate governance standards. We have two independent directors on the Board of Directors. We also have Strategy, Audit and Personnel and Remuneration board committees. Audit and Personnel and Remuneration Committees are chaired by independent directors with relevant experience. Since the private placement of 15 percent of our shares in 2008, we have enjoyed a constructive and transparent relationship with our minority shareholders, including the EBRD and two private investment funds. Minority shareholders collectively hold two seats on the Board of Directors.

### **Strong relationship with Russian Railways**

We are an important subsidiary of Russian Railways, one of the largest transportation companies in the world and the operator of the world's second longest railway network according to A.T. Kearney. Russian Railways is the owner of the whole Russian rail infrastructure and the dominant provider of locomotive services in Russia and wholly owned by the Russian state. According to Russian Railways, development of rail-based container transportation market in Russia is one of the key elements of its long-term strategy. We were established by Russian Railways in 2006 as its key subsidiary focussing on the development of nationwide rail-based container transportation in Russia. Neither Russian Railways, nor any of its other subsidiaries, directly competes with us in this market or, to our knowledge, has a sufficiently large fleet of flatcars or containers to make such competition possible in the near future.

We enjoy a close working relationship with Russian Railways and jointly coordinate on a range of operational issues relating to the railway network to provide our customers with reliable high-quality service. We are also able to align our development strategy with that of Russian Railways, thus planning our future investments in line with their strategy for the future development of Russia's rail infrastructure. For example, we invested in the expansion of our terminal at Zabaikalsk (on the border with China), where Russian Railways has also been making significant investments to expand rail throughput capacity in order to accommodate the expected growth in container and other freight traffic between Russia and China. See also "*— Assets — Terminals — Terminal development programme — Zabaikalsk (Chita region)*".

Our close working relationship with Russian Railways also allows us to participate in the decision-making process regarding railroad industry regulation, such as the tariffs charged by Russian Railways, which are critical for our pricing and competitive position. See "*Regulation of Railway Transportation in Russia*".

Our business development efforts abroad also benefit from our relationship with Russian Railways. For example, Russian Railways has played an important role in the launch of our project to operate a container terminal at Dobra, Slovakia, jointly with a Slovak partner and the formation of a strategic partnership in China.

## **GROWTH STRATEGY**

We plan to leverage our significant competitive strengths to grow our revenue and profitability, while maintaining our market share, sufficient to remain the leading provider of intermodal container transportation and integrated logistics solutions in Russia. Our strategy to achieve these objectives includes the following key elements:

### **Increase container transportation volumes by continuing to invest in our flatcar and container fleet**

We plan to continue to expand and modernise our fleet of flatcars and containers, both of which are vital to our business, to meet the increasing demand for our services and improve our operating efficiency. Our investment programme, approved by the Board of Directors, provides for an aggregate capital expenditure budget of approximately RUR 15,700 million from 2010 through 2012, of which approximately RUR 11,000 million has been budgeted to acquire flatcars (including the purchase of flatcars as a result of the termination of leasing and sub-leasing agreements) and approximately RUR 1,000 million has been budgeted to acquire containers.

Our fleet expansion and modernisation plans are focused on creating an optimal fleet structure, largely focused on 80-foot flatcars, which are well-suited for transporting light-weight cargo in 40-foot containers on import routes, where we expect most of the growth in container traffic volumes to occur in the short- to medium-term. Our focus on 80-foot flatcars is also aimed at improving the efficiency of our operations because 80-foot flatcars have lower operating and maintenance costs per TEU transported than any other types of flatcars we use.

We constantly monitor our fleet requirements and make purchase decisions based on a comprehensive assessment of the projected demand for our services, expected supply and demand for flatcars as well as flatcar prices and their anticipated dynamics. For example, in the first half of 2009 as a result of the global economic downturn, many flatcar manufacturers offered pricing incentives to support their sales. We took advantage of these price incentives by signing new supply contracts, which will lower our fleet modernisation costs. As a result of our affiliation with Russian Railways, and due to our large orders, we believe that we have a more advantageous position compared with our competitors in purchasing flatcars.

We also plan to acquire new containers to replace some of our aging ISO containers. To meet our growing demand, we plan to acquire primarily 40ft containers because they are well-suited for transporting light-weight cargo used primarily in import container transportation. The market for container production has significant capacity, thus it is relatively easy to acquire new containers in response to an increase in demand from our customers.

### **Continue to grow our integrated logistics services**

We believe that the market for integrated logistics services in Russia is in its early stages of development, and we expect that this market will continue to grow and evolve to resemble more developed markets where demand for such services is substantially greater. See “— *Competitive strengths — Leading provider of integrated logistics services*”.

As the market leader in providing integrated logistics services in Russia, we intend to continue to actively market our integrated logistics solutions and value-added services to our existing and new customers. In particular, we believe that our ability to bundle and cross-sell our services will provide considerable revenue enhancement opportunities with our larger customers, many of whom seek a broad range of integrated logistics services from a limited number of reliable service providers. We are currently successful in providing integrated logistics services to automotive manufacturers including Volkswagen, General Motors Kia Motors and Sollers, as well as major customers in other sectors of the economy such as Samsung and Pepsico.

To support the ongoing roll-out of our integrated service offering, we plan to continue to optimise our asset base. In particular, we intend to continue to upgrade our flatcar and container fleet, expand our truck fleet, enhance our customs clearance capabilities at several of our terminals and continue investing in our IT infrastructure.

### **Continue to expand customer base through development of sales and operational network**

We intend to continue expanding our geographic reach and sales network internationally and domestically.

In expanding our operational base and sales network abroad, our primary objective is to obtain direct access to new customers in countries that generate significant trade volumes with, or high transit flows through, Russia. We formulate our foreign market entry strategy based on the importance of the new market to our operations, the anticipated cargo flows from, to and through that market, its regulatory environment, potential entry barriers and the prevailing business culture. In the wide-gauge railway area, which includes Russia, other CIS countries and Finland, we are particularly focused on expansion opportunities in Kazakhstan, Ukraine and Belarus. By increasing our presence in these markets, we hope to further expand our geographic reach and obtain access to new customers,

while also increasing the utilisation of our existing assets, thus improving the efficiency of our operations. Moreover, these markets are located on key international transport routes between Russia, Asia and Europe, which allows us to capture the transit cargo flows between these regions.

To gain access to new markets and customers beyond the wide-gauge railway area, we plan to establish a sales presence either by forming a subsidiary with a view to developing business organically (such as the case in South Korea and Austria) or by establishing a strategic partnership (such as in China and Germany) or a joint venture (such as in Finland) with a local partner.

Domestically, we plan to leverage our sales network to improve our service offering to, and increase the flow of business from, existing customers, as well as to gain access to new customers including those that previously used local freight forwarders.

### **Continue to improve the efficiency of operations and increase profitability**

We plan to continue to improve the efficiency of our operations and increase profitability by increasing flatcar turnover, decreasing empty runs and taking other efficiency enhancing measures.

We plan to improve our flatcar turnover by increasing the number of containers transported in block-trains and introducing block-trains on new routes. We also intend to increase the number of shuttle trains, which are block-trains regularly running between our main terminal hubs.

To decrease empty runs, we plan to continue to focus our sales and marketing efforts on finding customers in locations where we have empty flatcars or containers and offering price incentives for such customers to use our services. Such price incentive mechanisms are especially important for low traffic or remote destinations where there is greater potential for a longer empty run to occur. In addition, we use repair depots located close to either the destination of cargo or its origin to minimise empty runs to and from depots. Finally, we continuously upgrade our IT system to improve our asset utilisation and decrease empty runs.

In order to improve the efficiency of our operations and increase profitability, we are improving throughput capacity at our key terminals and modernising our flatcar fleet. We have increased throughput capacity at a number of our busiest terminals by extending the length of loading fronts, redesigning loading operations, converting storage space used for mid-size containers to ISO container storage and implementing advanced container handling technologies. In addition, our programme to upgrade and modernise our rolling stock is focused on the acquisition of 80-foot flatcars, which improves our operating efficiency by lowering maintenance costs per TEU transported compared with other types of flatcars in our fleet.

## **HISTORY AND DEVELOPMENT**

In 2001, the Russian government initiated a reform of the railway system generally aimed at increasing the efficiency and stability of the Russian railway transportation sector. The principal goals of the reform are improving the stability, safety and quality of Russia's railway transportation services, creating an effective integrated railway transportation system in Russia, reducing average railway freight transportation costs and meeting growing demand for railway transport services. The Reform Programme consists of three stages: the first and second stages were completed by the end of 2005, while the third stage that commenced in 2006 is ongoing. See "*Russian Container Transportation Market — Liberalisation of the rail industry*". We are one of more than 50 subsidiaries of Russian Railways formed as a result of this reform process.

In March 2003, "TransContainer (Ministry of Railways) of Russia" was established as a state enterprise within the Ministry of Railways of the Russian government to operate certain container transportation assets, including flatcars and containers, previously operated by regional state enterprises within the Ministry of Railways. Between 2003 and March 2006, TransContainer continued to operate Russian Railways' container transportation business as a branch of Russian Railways.

In March 2006, we were established as an open joint stock company. Russian Railways contributed certain assets related to container transportation, formerly operated by its branch, to our share capital. In addition to the assets already operated by its branch, Russian Railways also contributed a network of rail-side container terminals located at 47 railway stations in Russia (with one terminal divested in 2010) and certain other assets related to the terminal network as well as cash. To ensure the continuation of business operations, we hired employees previously employed by Russian Railways' container branch.

In February 2008, Russian Railways completed a transaction for the sale of 15 percent of the Company's ordinary shares in a private placement. In that transaction, 9.25 percent of the Company's shares were acquired by EBRD and 5.75 percent by minority investors. As of 30 June 2008, 85 percent minus one share of the Company's shares were

owned by Russian Railways, with the remaining 15 percent owned by these minority shareholders. In 2009, TransCreditBank acquired 0.75 percent of the Company's shares from the minority shareholders. See "*Principal and Selling Shareholders*".

## SERVICES

We are Russia's leading intermodal container transportation and integrated logistics solutions company, providing comprehensive container transportation and handling solutions. We provide a full range of integrated logistics services, as well as rail-based container transportation services, terminal services, truck delivery and freight forwarding services.

### **Integrated logistics services**

Integrated logistics services is our largest and the fastest growing revenue source. Our revenue from integrated logistics services continued to grow during the last three years, increasing from 1.5 percent of our total revenue in 2007 to 44 percent of our total revenue for the six months ended 30 June 2010.

We bundle more traditional container transportation and handling services with value-added services such as freight forwarding, route planning and optimisation, customs clearance and brokerage, storage (including storage pending customs clearance at our bonded warehousing facilities), pick-up and "last mile" delivery by truck, as well as cargo tracking and security. Depending on customer requirements and preferences, we may also integrate services of third-party providers (such as international container sea shipping, rail transportation, trucking and other services provided by third parties outside of our area of operations). Our integrated services offering is flexible and can be tailored to meet the specific needs of a particular customer. We believe that our integrated logistics services provide considerable value to our customers, for which they are willing to pay a premium.

The sizeable demand for our integrated logistics services began with international automotive manufacturers operating in Russia. These customers sought to outsource a larger share of their supply chain management to a reliable, well-established service provider capable of delivering a range of intermodal container transportation, integrated logistics and freight forwarding services in Russia and abroad with comprehensive "just-in-time" delivery. Due to our unique asset base and extensive network in Russia and abroad, we believe we were the only provider in Russia able to meet such requirements.

In the recent years, the demand for our integrated services has grown significantly, especially among our large corporate customers. We anticipate that the demand for integrated logistics services will continue to increase in Russia to resemble more developed markets where demand for such services is substantially greater.

One of our larger customers to whom we provide our integrated logistics services is the Volkswagen automotive assembly plant in Kaluga, where Audi, Volkswagen and Skoda automobiles are assembled. As part of this integrated service, we manage the assembly plant's entire cargo transportation and handling chain to provide "just-in-time" delivery of the assembly parts from its Slovak manufacturing facilities to the Kaluga facility. We organise intermodal containerised delivery of spare parts according to assembly schedules, provide freight forwarding and customs clearance services, optimise transshipment schedules for cargo delivery and return of empty containers and advise the customer on cargo logistics. In addition, we also operate an on-site rail-side terminal at Volkswagen's Kaluga facility, which is supported by our own service centre dedicated to the assembly plant's transportation and logistics requirements.

In providing integrated logistics services, we use predominantly our own assets, as it is difficult to outsource services in Russia because the number of reliable providers is limited. Our large and diversified asset base allows us to enhance the efficiency and reliability of our services and ensures available capacity to respond to increases in customer demand. See "*— Competitive strengths — Leading provider of integrated logistics services*" and "*— Assets*".

### **Rail-based container transportation services**

Rail-based container transportation is the second largest segment of our business. Rail-based container transportation represented 32 percent of our total revenue for the six months ended 30 June 2010. Our rail-based container transportation services primarily involve transporting containers (owned by us or third parties) on our flatcars and leasing of flatcars and containers to third parties. For the six months ended 30 June 2010, our flatcars transported 0.55 million TEUs, which according to A.T. Kearney represented approximately 53 percent of the total TEU volume transported by rail in Russia (a decrease from 59 percent for the six months ended 30 June 2009, primarily due to our pricing policy during the economic downturn). See "*— Pricing — Pricing during the recent economic downturn*".

The table below sets forth the total volume of ISO containers transported by rail in Russia, as compared to the volume transported by our flatcars:

Type of transport	For the six months ended 30 June 2009			For the year ended 31 December 2009			For the six months ended 30 June 2010		
	Russian Railways' network <sup>(1)</sup>	Our flatcars	Our share	Russian Railways' network <sup>(1)</sup>	Our flatcars	Our share	Russian Railways' network <sup>(1)</sup>	Our flatcars	Our share
	(million TEUs)			(million TEUs)			(million TEUs)		
Domestic . . . . .	482	362	75%	1,015	746	73%	513	334	65%
Export . . . . .	235	126	54%	469	237	51%	274	125	46%
Import . . . . .	147	49	33%	319	96	30%	199	79	40%
Transit . . . . .	52	8	15%	119	19	16%	73	14	19%

Source: (1) Russian Railways

Our rail-based container transportation service entails providing flatcars, at the time and place requested by a customer, for loading and transporting containers, owned by us or a third party, to the requested destination. Once we load containers onto our flatcars and make the necessary freight forwarding arrangements to initiate the shipment, Russian Railways transports our flatcars through its rail infrastructure using its locomotives. Subject to our freight forwarding arrangements, flatcars with containers may be transported either in mixed-cargo trains or in block-trains. Mixed-cargo trains are trains that consist of different types of railcars, carrying various types of cargo, often headed for various destinations. These trains typically stop at many transshipment stations along the route for attachment and detachment of railcars, which significantly increases delivery time. In contrast, container block-trains consist only of flatcars carrying containers bound for the same destination and are run on a predetermined schedule. When the destination is reached and the container is offloaded, the flatcar is either loaded at that location or transported to a location where another customer's shipment would originate.

In 2009, as part of our efforts to reduce empty runs, we introduced the transportation of non-containerised cargo, such as pipes, suitable for transportation on flatcars. Though the share of such services in overall flatcar runs is insignificant, it enables us to use our fleet in a more efficient manner on certain routes and destinations.

As of 30 June 2010, we operated approximately 25,500 flatcars and approximately 58,400 ISO containers. As of 30 June 2010, we have the largest fleet of flatcars in Russia, which represents approximately 60 percent of all flatcars in Russia according to A.T. Kearney. Our large fleet of flatcars generates a high volume of container traffic and allows us to capture a significant market share of the container transportation business in Russia. Our customers transport different types of cargo requiring various types of containers and flatcars, thus our utilisation of a diverse fleet of flatcars gives us the flexibility to efficiently service our customers. A 40-foot flatcar offers the greatest flexibility because it can carry one 40-foot or two 20-foot containers and has a greater cargo weight tolerance compared to 60-foot and 80-foot flatcars. A 60-foot flatcar can carry more containers than a 40-foot flatcar but has certain limits with respect to the weight of cargo in containers. An 80-foot flatcar is predominantly used for transportation of two 40-foot containers with light-weight cargo and is well-suited for import and transit but has certain weight limitations. In the recent years, we concentrated on increasing our fleet of 80-foot flatcars primarily because we consider such flatcars more cost-effective.

As of 30 June 2010, due to our large flatcar fleet, wide geographic footprint and sales network, we were able to originate container freight from a diverse customer base and service over 300,000 routes throughout Russia and abroad. However, as the market leader in rail-based container transportation in Russia, we are subject to certain restrictions. Specifically, we are required by law to provide our flatcars for transportation of containers on a first-come, first-served basis, subject only to a customer's ability to pay for our services. Moreover, so long as flatcars are available, we may not refuse to transport containers on our flatcars regardless of destination. These restrictions may result in inefficiencies in the utilisation of our flatcar fleet (such as longer empty runs), which we take into account when we set our prices for some destinations. See "*Risk Factors — Risks Relating to Our Business and Industry — We have a large market share in the provision of container transportation and related services, which may subject us to adverse regulatory interference in our operations*" and "*Regulation of Railway Transportation in Russia — Competition Regulation*".

Another important component of our rail-based transportation service is our terminal network located at 46 railway stations in Russia and 1 abroad. See "*Terminal services*" and "*Assets — Terminals*". Our nationwide network of rail-side container terminals and an integrated IT system for processing data on container transportation and terminal operations provide us with additional tools to increase the efficiency of flatcar and container fleet use. Having large volumes of containers at our terminals enables us to form block-trains, which results in a significant competitive advantage over other container flatcar operators. For the six months ended 30 June 2010, we

transported approximately 123 thousand TEUs using block-trains, which represented approximately 22 percent of our overall container transportation volume for that period.

### *Operational efficiency*

The efficient operation of our flatcar and container fleet is essential to the success of our business. We measure the efficiency of our rail-based container transportation operations by flatcar and container turnover rate and empty run ratio. Turnover rate is defined as the number of times each flatcar or container starts a new loaded trip within a year. Turnover is measured in the average time in days between two consecutive loaded trips of a flatcar or container, and turnover rate is calculated as 365 divided by turnover. An empty run ratio is defined as the average distance of an empty trip of a flatcar or container divided by the average distance of the total trip by the flatcar or container, respectively.

Turnover rate of flatcars and containers is one of the key factors affecting our revenue and efficiency of operations. Generally, the higher the turnover rate, the greater the revenue. Turnover rate primarily depends on the average distance to the destination and the time period within which containers reach their destination. Therefore, the use of block-trains improves turnover rate because containers reach their destination faster than they do on mixed-cargo trains.

Turnover rate also depends on our ability to manage empty runs and downtime of our flatcars and containers at terminals. Other conditions being equal, the longer an average empty run and/or downtime, the lesser the number of loaded trips per year and hence, the lesser our turnover rate. An empty run for a flatcar is the distance it runs without carrying any load (even empty containers), and for a container, when it runs empty. However, when transporting empty third-party containers is not considered an empty run because we are paid by the third parties for the use of our flatcars. Empty runs of our flatcars and containers reduce our profit margins because we pay for infrastructure, locomotive traction and other services provided by third parties during empty runs.

The efficiency of our operations is also influenced by our flatcar and container downtime. It includes flatcar downtime for maintenance and repair and the time en route to a repair depot.

The table below sets out our turnover period and empty run ratio for the six-month periods indicated:

	<u>For the six months ended 31 December 2008</u>	<u>For the six months ended 30 June 2009</u>	<u>For the six months ended 31 December 2009</u>	<u>For the six months ended 30 June 2010</u>
Turnover for Flatcars (days) . . . . .	14.5	16.2	15.2	14.8
Turnover for Containers (days) . . . . .	24.1	28.3	27.1	22.5
Empty Run Rates <sup>(1)</sup> for Flatcars . . . . .	10.3%	8.5%	7.5%	9.0%
Empty Run Rates <sup>(1)</sup> for Containers . . . . .	38.7%	39.8%	42.9%	39.9%

Note:

(1) Empty run rate is calculated as the empty run divided by the total run, which is the loaded run plus the empty run.

Russian Railways, as a provider of the railway infrastructure and locomotive service, controls the speed with which a train runs. We can influence the turnover rate of our fleet by arranging more of our loaded flatcars to be transported in block-trains rather than mixed-cargo trains. Russian Railways requires a block-train to have a standard length of 71 standard railcars transported by a single shipper. Therefore, in order to form a block-train an operator must have a sufficient number of containers bound for the same destination and a sufficient terminal capacity to load the containers on flatcars in an acceptable time. Thus, to increase our turnover rate, we must attract customers requiring sizeable container shipments on a regular basis and, if necessary, increase the throughput capacity at our terminals. By generating continuous and sufficiently-sized container flow on a particular route, we can run block-trains on that route, increasing our turnover rate. Furthermore, by increasing the throughput capacity at our terminals that may require additional capacity, we expect to reduce downtime of our flatcars and containers, which will increase our turnover rate.

We leverage our asset base and operating and sales network to improve the efficiency of our operations. We optimise our operations by, among other means, reducing empty runs of our flatcar and container fleet through matching customer orders for shipments to a particular destination with shipment orders from (or close to) that destination. This matching of routes and destinations is made possible by having a large fleet of flatcars and containers, a nationwide network of terminals and delivery destinations as well as a large and diverse customer base. On routes where we have greater levels of empty runs, we offer price incentives to customers (such as freight forwarding companies) to attract greater freight volumes and thereby reduce empty runs. Our IT system enables us to further optimise our asset utilisation and improve the efficiency of our operations. With our information systems

connected to, and receiving information from, the main computer centre of Russian Railways, we are well equipped to address day-to-day operational issues and improve the efficiency of container transportation, including identifying and avoiding route bottlenecks, delays or other operational problems. Moreover, our IT systems enable us to reduce the downtime of our flatcars and containers by better synchronising our terminal handling and transportation services.

### **Terminal services**

Terminal services are our third largest business segment. Terminal services (including agency fees) generated nine percent of our total revenue for the six months ended 30 June 2010. Terminal services primarily involve container handling, including loading and unloading operations, as well as the storage of containers and their transshipment (which involves regrouping containers on flatcars according to their destination). Other services include the preparation of containers for loading, such as for winter transportation, carrying hazardous or perishable cargos, assistance in loading cargo into and affixing it inside a container, unloading cargo from containers, sealing and unsealing containers, inspecting cargo in containers, as well as cargo warehousing. Our provision of terminal services also enables us to provide our integrated logistics services. See “— *Integrated logistics services*”.

In addition to container and cargo handling services, some of our terminals accommodate flatcar and container repair and maintenance facilities, sales offices, in-door warehouse facilities and bonded warehousing facilities for cargo storage pending customs clearance and truck dislocation and management sites. The provision of terminal services enables us to increase the efficiency of container and flatcar traffic management and streamline intermodal delivery processes, including enhancing our ability to run block-trains along key routes.

Our terminal network consists of terminals located at 46 railway stations throughout Russia and 1 in Slovakia. The network is the largest in Russia by volume of TEUs handled and the second largest by the number of terminals after the terminal network owned by Russian Railways, according to A.T. Kearney. Our terminals are located at all 17 railroads, comprising the entire Russian railroad network and have nationwide coverage stretching from Sakhalin (in the Far East) to Kaliningrad (the most western point of Russia). Most of our terminals are located at key transportation hubs, on heavy-traffic routes and at important cross-border junctions. The terminals have yards for handling either ISO containers or MDCs as well as multi-purpose yards capable of handling both types of containers.

All of our terminals in Russia are designated as Sites for Common Use, which means we must provide our terminal services on a non-discriminatory basis to any market participant willing and able to pay for our terminal services. See “*Risk*” Factors — *Our container terminals are “Sites for Common Use” and are subject to regulation, which may restrict our flexibility in using them*”. Furthermore, because our terminals are Sites for Common Use, prices for loading, unloading and storage of containers are based on tariffs set by Russian Railways. Prices for other terminal services (such as loading and unloading of cargo into or from containers, inspecting cargo inside containers, preparing containers for loading and cargo warehousing services) are free market prices. As our terminals are Sites for Common Use, we are not required to pay Russian Railways certain charges, such as fees for the delivery and removal of flatcars from the terminal, and we pay a reduced demurrage fee for our flatcars on the railway at the terminal. We provide services at our terminals as an agent for Russian Railways and collect fees for these services on its behalf, then pay these fees to Russian Railways and receive an agency fee.

### **Trucking services**

Trucking services, also referred to as truck deliveries, generated seven percent of our total revenue for the six months ended 30 June 2010. Our trucking services include delivery and pick up of containers at designated sites, delivery to and pickup of containers from customs stations as well as other “last mile” services. Trucking services are important to our business model as they provide flexibility in servicing our customers, allow us to reach the end customers and make us less dependent on third-party truck delivery operators. Our truck fleet is capable of transporting both ISO containers and MDCs. We use our own truck fleet as well as outsource trucking. As of 30 June 2010, approximately 39 percent of truck deliveries was carried out using our trucks and approximately 61 percent using third-party trucks. Trucking services are provided from all of our terminals. To improve the efficiency of our truck fleet’s utilisation, we equipped many of our trucks with GPS receivers and installed an electronic truck management system, which gives us an on-line, real-time control of truck routes, loading and unloading, as well as other truck management functions. Our provision of trucking services also enables us to provide our integrated logistics services. See “— *Integrated logistics services*”.



### Freight forwarding and logistics services

Freight forwarding and logistics services, which represented five percent of our total revenue for the six months ended 30 June 2010, include services such as assistance in the preparation of documents for transportation and customs clearance related to rail-based container transportation services.

### Bonded warehousing services

Bonded warehousing services, which represented one percent of our total revenue for the six months ended 30 June 2010, comprise the handling and storing of containers for our customers at specially-equipped yards or warehouses (bonded warehouses) located at our terminals prior to the customs clearance of the cargo and the payment of other applicable duties as well as other services we provide such as coordinating with customs agents.

## CUSTOMERS AND SALES

### Customer base

We have a broad customer base which exceeds 200,000 customers, approximately 20,000 of which are regular customers, ranging from large multi-national corporations to small- and medium-size businesses. We serve all major industries which use container transportation services, including metallurgical, chemical, pulp and paper, automotive as well as food and beverage, consumer electronics and household appliance manufacturing. Our 10 largest customers accounted for approximately 23 percent of the total amounts billed to customers for six months ended 30 June 2010. No single non-related party customer contributed more than 6.5 percent to the total amounts billed to customers both in 2009 and six months ended 30 June 2010, which indicates our limited exposure to any particular customer or any particular industry (see “*Related Party Transactions*”). With a larger and more diverse customer base, we are also able to increase our operating efficiency through economies of scale and minimisation of empty runs.

Our customer base consists primarily of two segments: (i) small- and medium-size businesses, and (ii) large corporate customers. Small and medium enterprises, including independent logistics and forwarding companies, represent the larger segment within our customer base. These customers, serviced primarily by regional customer service centres and local sales offices, usually require a standard set of services, such as rail-based transportation and terminal services.

Our key end customers within our large corporate customer segment include multi-national companies, such as Volkswagen, Rusal, Ilim Group, General Motors, Kia Motors, Sollers, Samsung and Pepsico, as well as major international and domestic shipping and logistics companies, or their subsidiaries, such as Maersk, MCL Shipping, Unico Logistics and OOCL.

The following table shows our top 10 customers by the total amounts billed to these customers as of 30 June 2010:

<u>Customer</u>	<u>Percent</u>
VW . . . . .	6.5%
Rusal . . . . .	3.5%
Fintrans . . . . .	2.8%
Unico Logistics . . . . .	2.5%
PTK . . . . .	1.6%
Voskhod . . . . .	1.5%
Termos-Container . . . . .	1.5%
Kuznetsk-FerroAlloys . . . . .	1.2%
Lebedyansky . . . . .	1.1%
Bystraya Dostavka . . . . .	1.1%

We employ different strategies in serving the large corporate customers segment, primarily because such customers require highly customised forms of service. For example, large corporate customers generally require more sophisticated transportation and logistics solutions because of the complexity of their supply logistics as well as larger “just-in-time” delivery requirements. These customers are serviced primarily by our main customer sales office in Moscow, supported by regional sales offices, if required. Service contracts with these customers typically have longer terms and are tailored specifically to meet the needs of each customer. We believe that these customers may also take into account the environmental aspects of their transportation needs, and consider rail-based transportation to be more environmentally-friendly than road-based transportation.

## Sales network

We serve our diverse customer base through a sales network that consists of the main sales office located at our Moscow headquarters, 148 sales offices, including 10 regional service centres, and 3 regional agent companies located throughout Russia. The main sales office in Moscow deals primarily with large corporate customers, while regional customer service centres and sales offices are responsible for sales and related functions within their designated geographical areas. We also have 3 foreign subsidiaries, 1 joint venture and 2 strategic partnerships, 8 representative offices and established relationships with 16 agent-firms and 9 regional partners abroad. Through our joint ventures and subsidiaries, we offer freight forwarding and logistics services abroad in collaboration with local operators. The representative offices outside of Russia primarily promote our services and monitor the operations of our agent companies. Agent companies, which usually are local freight forwarding companies, are third-party entities that sell our services and receive compensation in the form of an agency fee. We use the services of local agents because in some jurisdictions we may not transact business other than through a local agent or a local subsidiary. Moreover, using local agents typically is more cost effective because of their knowledge of the market and their customer base. In 2009, direct sales by the main sales office in Moscow represented approximately 14 percent of the total amounts billed to customers, sales through regional customer service centres and sales offices represented approximately 83 percent of the total amounts billed to customers and sales through various international sales outlets represented approximately 3 percent of our total amounts billed to customers.

Our customer service centres are located in key regional transportation hubs throughout Russia, including Saint-Petersburg, Yaroslavl, Samara, Novosibirsk and Krasnoyarsk, among others. Each customer service centre offers a full range of our services including freight forwarding and logistics. We are implementing a “one-stop shop” service system in all customer service centres. This system enables our customers to have access to, and purchase, a full range of our services in a single location. Each customer can order any combination of our services in one location, which is more convenient for our customers and increases the efficiency of our operations and leads to cost savings. The customer service centres have a real-time electronic connection with the operations departments in Moscow and the computer networks of Russian Railways. This interconnectivity enables the service centres to independently manage route planning, cost calculation and payment procedures, regardless of where the transportation services would eventually take place.

Our local sales offices facilitate the generation of sales in the local markets, of smaller capacity. The sales offices typically handle standard services, such as straightforward shipment of containers. They require smaller office facilities, employ less staff, and thus are less expensive to maintain than the customer service centres, which are designed to provide more complex services. Our sales offices also use the “one-stop shop” service system and have a real-time electronic connection to our main IT network, which allows them to offer tailored integrated services (in addition to more traditional container transportation and handling services) with the support of regional customer service centres or the main sales office.

Outside of Russia, we have established representative offices, as well as agency relationships with local companies. Currently, we have representative offices in Germany, Latvia, Belarus, Ukraine, Uzbekistan, China and Abkhazia. Also, we established wholly-owned subsidiaries in Slovakia, Austria and South Korea, and have agents working in 15 countries, including China, Japan and Germany. We have also formed one joint venture in Finland and two strategic partnerships in China and Germany. For example, our joint venture with VR Ltd., a Finnish rail-based container shipper, allows us to run regularly scheduled block-trains on the route between Russia and Finland. We intend to continue expanding our international sales network and plan to establish additional representative offices and increase the number of agents abroad.

## Sales process overview

Requests for transportation services can be submitted to any of the sales offices, including Moscow or any regional office. Typically, larger customers prefer to submit their orders electronically or via fax to the main sales office in Moscow, while smaller customers submit their orders in person at the customer service centres or sales offices. We have developed a unified catalogue of services which contains a comprehensive list of services, including services provided directly by us and certain services provided by third parties as part of our intermodal delivery services, as well as a detailed price list for these services. Currently, we are developing a web-based portal system which would enable our customers to prepare and transmit orders electronically.

Orders received by our sales offices are entered into an electronic database. This information is aggregated into a combined order book which is then passed to the operations department charged with operational planning based on requested volumes and shipment locations.

## Pricing

We set prices for our services, including charges for the use of our flatcars and containers, certain terminal services, freight forwarding and logistics, “last mile” truck delivery, customs clearance-related services, based on free market pricing, taking into consideration such factors as maintenance costs of our equipment, the potential length of a return empty run, transportation distance, container size, cargo weight, time of delivery and other factors. Prices for certain terminal services we provide, such as loading, unloading and storage of containers at our terminals (within 5 days), are based on tariffs set by Russian Railways. Prices charged by Russian Railways for the use of its infrastructure are tariff-regulated (by the FTS) and for non-containerised cargo are set based on the class of freight, among other factors. There are three classes of freight tariffs. Class 1 freight includes basic industrial and construction materials, such as iron ore, coal, coke, cement, wood and gravel. Class 2 freight includes grains, crude oil and oil products, foodstuffs and fertilizers. Class 3 freight includes lubricants, pulp and paper, ferroalloys, non-ferrous metals, metalware and auto parts. Class 1 freight has the lowest tariff, Class 2 freight has a higher tariff and Class 3 freight has the highest tariff. Tariffs for container transportation of most cargoes are equivalent to Class 2 freight tariffs, and thus, transporting Class 3 freight in containers may be less expensive than transporting such freight using non-containerised rail transport.

We offer customers two pricing options: an itemised price or a through-rate price. An itemised price is the sum total of the individual rates of component services comprising an order, including payments to third parties (e.g. payments to Russian Railways for locomotive traction and the use of railway infrastructure). We typically provide an itemised price quote for terminal-to-terminal transportation, to small- and medium-sized enterprises, as well as to freight forwarding companies that usually prefer to purchase each required services separately rather than a package of services. Customers may pay charges for third-party services (such as infrastructure and locomotive traction services provided by Russian Railways) directly to these third parties, or they may pay us and we pass these charges on to the relevant third party. These third-party charges do not appear in our consolidated profit or loss.

A through-rate price is an all-inclusive price charged for a set of integrated logistics services. See “— *Services — Integrated logistics services*”. Such through-rate price includes a charge for standard services items such as rail-based container transportation, container handling or truck delivery but also has a significant component of value-added services, both standard and custom-tailored. A through-rate price is typically requested by large customers and for a long-term contract with guaranteed transportation volumes. We seek to increase the volume of integrated services provided at through-rate prices. See “— *Growth strategy — Continue to grow our integrated logistics services*”.

Our contracts with large corporate customers usually stipulate both a fixed through-rate and a fixed transportation volume, and generally contain a price adjustment mechanism designed to adjust our rates for increases in the tariffs charged by Russian Railways, significant changes in foreign exchange rates and inflation, among others. Long-term transportation volumes are typically determined for periods of one to several months and may deviate by up to approximately 10 percent from the initially stated volumes for a given period. In certain cases, such as those involving return routes and guaranteed transportation volumes, flexible rates may be offered, taking into account reduced costs and/or additional benefits associated with providing a particular service. Most of our customers prepay for services, but large corporate customers usually receive extended payment terms of up to 45 days. For domestic customers, the contract currency is the Rouble, while for foreign customers the currency of the contract is agreed with the customer.

### ***Pricing during the global economic downturn***

In 2009, due to the onset of the economic downturn that resulted in a significant reduction in demand for container transportation services, which caused an increase in competition between container transportation companies, pricing of our services became an important measure in mitigating the effect of the downturn. In the fourth quarter of 2008 and the first half of 2009, container transportation volumes declined significantly and the market recovery timing was uncertain. During that period, we offered many customers significant discounts and deferred payment terms (which we typically had not done prior to the economic downturn, providing our services predominantly on a prepayment basis), in order to retain our customer base and help our customers stay in business. See “*Operating and Financial Review — Significant Factors Affecting Results of Operations — Pricing*”.

As container transportation volumes declined and price competition intensified, many of our competitors were unable to retain their customer base and their revenue decreased significantly. This in many cases caused them to divest their transportation assets, leave the container transportation market for other, lesser affected freight transportation segments or become insolvent. The most affected by the economic downturn were our competitors that leased, or acquired on credit, a significant portion of their transportation assets. Because transportation volumes declined, these competitors reportedly were unable to generate sufficient cash flows to meet their debt requirements

and were forced to divest a significant portion of their transportation assets (such as DVTG), some of which left the container transportation market.

During the second half of 2009, container transportation volumes began to stabilise, and we revised our pricing strategy. We gradually reduced offering significant price discounts and limited the provision of deferred payments terms. Initially, this strategy resulted in a marginal decrease in our market share. However, in March 2010, our market share began to restore, primarily because most of our competitors began to follow our price levels, while most of them have been unable to provide customers with services of comparable range and reliability.

## ASSETS

Our asset base consists primarily of container transportation assets, which primarily consist of flatcars and containers, a network of 47 rail-side terminals (46 in Russia and 1 in Slovakia), a fleet of trucks and container handling equipment.

### Container transportation assets

#### *Flatcars*

We own and operate three types of flatcars: 40-foot, 60-foot and 80-foot. In the process of our incorporation, we acquired flatcars predominantly of the first two types; the long-base 80-foot flatcars came into mass production only a few years ago. As of 30 June 2010, the average age of our 40-foot, 60-foot and 80-foot flatcars was approximately 16, 24 and 2 years respectively, while the expected useful life of a new flatcar is 32 years. The useful life of a flatcar can generally be extended by five more years by performing a “life extension” overhaul of the flatcar. This overhaul can generally be performed twice over the course of a flatcar’s life. Typically, it is more cost effective to purchase new flatcars rather than overhaul old flatcars. Therefore, unless there are specific market conditions, such as a shortage in supply of new flatcars, we prefer to purchase new flatcars. Between the fourth quarter of 2008 and the first half of 2009, as railway container traffic declined significantly, flatcar operators purchased fewer flatcars. This caused the demand for flatcars to significantly decline and forced the flatcar manufacturers to offer various incentives to purchasers. We were able to take advantage of these incentives and acquire new flatcars while significantly reducing flatcar acquisition costs.

The table below sets out information regarding our fleet of flatcars as at 30 June 2010:

<u>Car Type (feet)</u>	<u>Lease</u>	<u>Owned</u>	<u>Total</u>	<u>TEU capacity</u>	<u>Average age (years)</u>
40-foot . . . . .	—	6,847	6,847	13,694	16
60-foot . . . . .	—	14,823	14,823	44,469	24
80-foot . . . . .	<u>286</u>	<u>3,507</u>	<u>3,793</u>	<u>15,172</u>	2
<b>Total</b> . . . . .	<u>286</u>	<u>25,177</u>	<u>25,463</u>	<u>73,335</u>	18

We plan to continue increasing and modernising our flatcar fleet, primarily through the purchase of 80-foot flatcars, which are well suited for transporting 40-foot containers. We expect the acquisition of 80-foot flatcars to improve the efficiency of our operations, because 80-foot flatcars have lower operation and maintenance costs per TEU transported than any of our other types of flatcars. During 2009, we acquired approximately 1,350 80-foot flatcars. As of 30 June 2010, approximately 21 percent of our flatcar fleet in terms of TEU capacity consisted of 80-foot flatcars, whereas 60-foot flatcars constituted approximately 60 percent and 40-foot flatcars constituted approximately 19 percent of our fleet. However, our target flatcar fleet composition would be approximately 50 percent in 80-foot flatcars, approximately 20 percent in 60-foot flatcars and approximately 30 percent in 40-foot flatcars. Our investment programme, approved by the Board of Directors, has an aggregate capital expenditure budget of approximately RUR 15,700 million from 2010 through 2012, of which approximately RUR 11,000 million is to acquire flatcars (including the purchase of leased flatcars) and approximately RUR 1,000 million is to acquire containers.

#### *Containers*

We own and operate several types of containers. The majority of our containers are standard intermodal 20-foot and 40-foot ISO containers. We also operate a park of specialised containers as well as MDCs of 3- and 5-ton capacity.

### *ISO containers*

As of 30 June 2010, we owned approximately 58,400 ISO containers of which approximately 16,300 and 42,100 were 40-foot and 20-foot containers, respectively. As of 30 June 2010, approximately 44 percent of our ISO containers in terms of TEU capacity were 40-foot containers and approximately 56 percent were 20-foot containers, while our target container fleet structure is to have approximately 60 percent 40-foot containers and 40 percent 20-foot containers. As of 30 June 2010, the average age of these containers was approximately 3 years for 40-foot containers and 13 years for 20-foot containers. The expected useful life of 20-foot and 40-foot containers is approximately 15 years. We typically do not overhaul ISO containers to extend their useful life because it is more cost effective to purchase new containers and there is an adequate supply of ISO containers in the market.

In 2009, as a result of the global economic downturn, we substantially reduced the acquisition of new ISO containers. However, in 2010, we plan to gradually resume purchasing new containers. We plan to increase our container fleet by acquiring approximately 800 new 20-foot containers, all of which are to be acquired, and approximately 900 40-foot containers, 396 of which were acquired in the first half of 2010. In the future, we plan to significantly increase the number of ISO containers we own, subject to favourable economic conditions. We aim to increase our container fleet mainly through the purchase of 40-foot containers in response to increasing demand for these containers and cost efficiency.

### *Specialised containers and container fitting systems*

In addition to standard ISO containers, we own and operate a variety of specialised containers and container fitting systems, which include thermo-insulated containers, refrigerator containers, tank containers, flexi-tank container fitting systems and container fitting systems for bulk cargoes.

Thermo-insulated containers are used for the transportation of perishable cargoes, such as juice, beer, etc. As of 30 June 2010, our park of thermo-insulated containers consisted of 1,927 units, all of which were manufactured at our Shakhunya depot.

As of 30 June 2010, approximately 120 of our flatcars were equipped to carry refrigerator containers, used for the transportation of perishable and frozen cargo. In 2009, approximately 9,800 TEUs of cargo were transported in refrigerator containers on Russian Railway's network in total, a 27 percent increase as compared with 2008.

We also operate specialised containers used for the transportation of foodstuffs, chemicals and hazardous and non-hazardous liquid cargos. We have partnered with a German freight forwarding firm, DB Shenker BTT, specialising in the transportation of chemical cargos in tank containers, to offer these services on routes between Russia and Western Europe.

In addition to specialised containers, we have begun to utilise container fitting systems, such as a flexi-tank and dry-bulk cargo container fitting systems. The flexi-tank container fitting system is a removable container system that fits into a standard 20-foot ISO container. It is used for the transportation of liquid cargoes of up to 24 tons. The dry-bulk cargo container fitting system is also a removable container fitting system that may be affixed inside of a standard 20-foot ISO container. It is used for the transportation of cargos such as grain. As of 30 June 2010, we made several trial deliveries, including a block-train with containers that delivered grain in fitting systems from West-Siberian region to the port of Nakhodka in the Russian Far East.

### *Medium-duty containers*

As at 30 June 2010, our fleet of MDCs amounted to approximately 63,000 units. We have received all of our MDC fleet from Russian Railways. Because our rolling stock is not equipped to handle MDCs, which are carried on gondola cars, we lease all of our MDCs to Russian Railways and receive rent payments. Under the lease terms agreed with Russian Railways, we are contractually required to provide maintenance for the MDCs. Lease payments that we receive from Russian Railways include a maintenance component.

We have not acquired any MDCs since we received the MDC fleet from Russian Railways and have no plans to grow or renew our MDC fleet in the future. The majority of these units are expected to be written off by 2012.

### *Maintenance and repair*

Because of the importance of reliable and efficiently functioning container fleet, rolling stock and power hoisting equipment in our business, proper maintenance and repair are key for our success.

### *Flatcars*

We perform three types of flatcar maintenance: (a) regular maintenance, (b) depot repairs and (c) complete overhaul. Regular maintenance is an ongoing process of technical inspection and minor repair. Depot repair service is performed every 160,000 kilometres and at least once every two years. Complete overhaul is a scheduled capital repair, which is carried out 17 years after the manufacture of a particular flatcar.

Russian Railways is the major provider of repair services for rolling stock in Russia with more than 100 repair depots. There are also a limited number of private flatcar repair plants.

In 2008, Russian Railways began to implement a set of complex technical measures and standards, such as special quality requirement for wheels and bogies, which would allow a longer period of time between depot repairs. For certain units of our flatcar fleet, which meet these new standards, a depot repair would be required after 250,000 kilometres (as opposed to 160,000 kilometres as is currently the case). We expect that extending the period between depot repairs will result in reduced flatcar maintenance and repair costs.

### *Containers*

We perform two types of container maintenance: (a) regular maintenance, and (b) complete overhaul. Regular maintenance and minor repairs are performed at one of our 25 repair shops or at one of 84 repair depots of Russian Railways. Typically, ISO containers are overhauled every five years and MDCs are overhauled every four years.

In 2007, we introduced the Approved Continuous Examination Programme, which we believe will increase the cost effectiveness of our maintenance programme. We also charge recipients of goods for container damage that occurs at unloading, if such damage is caused by the customer.

### **Suppliers**

#### *Flatcars*

There are a limited number of manufacturers primarily located in Russian and Ukraine, that produce flatcars suitable for transportation on the wide-gauge railroads. We purchase flatcars primarily from Russian and Ukrainian manufacturers as well as from distributors, including TransMash, RusUkrWagon, Intersystem Capital, SDS Mash, Kryukovsky Railcar Plant, Armavir Heavy Machinery Plant and Rail Invest Group.

#### *Containers*

There are many container manufacturing companies from which we can purchase containers. We purchase containers primarily from five suppliers: OJSC Abakanwagonmash (Russia), LLC BaltContainer (Russia), LLC Intekhprojekt (Russia), LLC Rustranscom (Russia) and Singamas (China).

### **Terminals**

We own and operate a network of rail-side container terminals located at 46 railway stations in Russia and 1 in Slovakia. We received all our terminals in Russia from Russian Railways. As of 31 December 2009, our terminals handled approximately 1.5 million TEUs (including ISO containers and MDCs), which represented approximately 36 percent of the total number of TEUs handled by all rail-side terminals in Russia.

The table below sets forth certain information with respect to our 10 largest terminals by volumes handled (including ISO containers and MDCs) as of 30 June 2010:

<u>Terminal</u>	<u>For the Year Ended 31 December</u>		<u>For the Six Months Ended 30 June 2010</u>	<u>Capacity as of 30 June 2010</u>	<u>Utilisation<sup>(1)</sup> 30 June 2010</u>
	<u>2008</u>	<u>2009</u>			
			(000's TEUs)		
Moscow-Paveletskaya . . . . .	126	110	60	307	39%
Khabarovsk II . . . . .	103	95	48	266	36%
Novosibirsk . . . . .	155	94	46	202	46%
Irkutsk . . . . .	98	79	41	212	39%
Moscow-Silikatnaya . . . . .	39	43	32	85	75%
Yekaterinburg . . . . .	103	64	33	130	51%
Saint-Petersburg-Vitebskiy . . . . .	111	81	35	129	54%
Krasnoyarsk . . . . .	89	71	32	200	32%
Pervaya Rechka . . . . .	55	49	25	106	47%
Moscow-Kuncevo II . . . . .	60	50	23	262	18%
<b>Top 10 terminals<sup>(2)</sup></b> . . . . .	<b>939</b>	<b>736</b>	<b>375</b>	<b>1,899</b>	<b>40%</b>
<b>Total terminal network</b> . . . . .	<b>1,899</b>	<b>1,459</b>	<b>723</b>	<b>4,513</b>	<b>32%</b>

Notes:

(1) Handling volumes for 6 months of 2010 multiplied by 2 and divided by capacity.

(2) Top 10 terminals represent the ten largest terminals by volumes handled as of 30 June 2010.

Our overall terminal network utilisation rate was approximately 52 percent for the year ended 31 December 2008 and approximately 32 percent for the six months ended 30 June 2010. Prior to the global economic downturn, several of our terminals had nearly reached their throughput capacity. Such terminals included Yekaterinburg, Novosibirsk, and St. Petersburg-Vitebskiy. There are certain factors which affect the overall terminal network utilisation rate. We measure the container handling capacity of our terminals on an aggregate basis for ISO containers and MDCs. However, because the traffic volume of ISO containers is significantly greater than that of MDCs, the higher utilisation rate for ISO containers is diluted by the lower utilisation rate for MDCs. Furthermore, certain terminals have lower utilisation rates due to their geographic location or because they are significantly affected by the seasonality and have low container traffic during the low season. Due to the fact that MDCs are being written off, growth in ISO containers handling is partly off-set by a decline in MDC handling. At our key terminals, we aim to decrease MDC handling capacity, and introduce additional terminal facilities to handle ISO containers.

### ***Terminal development programme***

We have instituted a terminal development programme to increase and modernise the facilities of five container terminals which are especially important for the sustainable growth of our terminal business as well as other business segments. One of them, Zabaikalsk, has been modernised. The other four terminals are Bazaikha (in the city of Krasnoyarsk), Kleschikha (in the city of Novosibirsk), Sverdlovsk-Tovarnaya (in the city of Yekaterinburg) and Kostarikha (in the city of Nizhniy Novgorod). The terminals are located on the main container transportation corridor running between east and west. Each of these terminals is strategically positioned in an important regional transportation hub serving Eastern Siberia (Kleschikha), Central Siberia (Krasnoyarsk), the Urals (Sverdlovsk-Tovarnaya), and the European part of Russia (Kostarikha). These four terminals handled a gross volume of 262 thousand TEUs, or approximately 18 percent of the total volume handled by our terminals for the year ended 31 December 2009, and 128 TEUs, or approximately 18 percent for the six months ended 30 June 2010.

The table below sets out certain figures related to the development of these four terminals:

	Annual additions of ISO container handling capacity (000's TEU)						Total additions	Overall Capacity
	2009 <sup>(1)</sup>	2010F	2011F	2012F	2013F	2014F		
Novosibirsk . . . . .	139	—	—	146	—	—	146	285
Nizhniy Novgorod . . . . .	38	—	142	—	—	—	142	180
Yekaterinburg . . . . .	98	—	—	—	132	—	132	230
Krasnoyarsk . . . . .	120	—	—	130	—	—	130	250
Total planned capacity of network . . . . .	3,105	3,105	3,247	3,523	3,655	3,655		

Note:

(1) Maximum possible handling volume of ISO containers per year.

#### *Zabaikalsk (Chita region)*

The terminal at Zabaikalsk is located in the Chita region, on one of the main transportation corridors for container traffic from China in a western direction to the Central part of Russia and in transit to Eastern and Western Europe as well as to China and the Far East. The corridor runs through a number of important regional transportation hubs in Eastern and Western Siberia, the Urals and the central and western parts of Russia, delivering containers for further distribution throughout these regional networks.

The core function of this terminal is the transshipment of containers (i.e. moving containers from a standard-gauged flatcar used on the Chinese railroad to a wide-gauged flatcar for transportation through Russia), as well as short-term storage of containers prior to their shipment either in block-trains or mixed-cargo trains. The terminal's throughput capacity in many cases determines the volume of import and export container traffic through the terminal. If the terminal's throughput capacity were inadequate, shippers may seek other routes to avoid delays. After the completion of modernisation of Zabaikalsk in 2008, its capacity increased to 600 thousand TEUs per year. Due to the sharp decline in container traffic from China, the utilisation rate of this terminal for 2009 was approximately five percent. The low utilisation rate was primarily due to the effects of the global economic downturn, which caused a significant decrease in import container traffic in 2009. However we anticipate that the utilisation rate will increase significantly when the container transportation recovers in the short- to medium-term. In the first half of 2010, container throughput at Zabaikalsk increased by approximately 50 percent compared with the corresponding period in the previous year, and utilisation rate at Zabaikalsk increased to 7 percent, which was primarily due to a partial recovery of import container traffic.

Our development programme for Zabaikalsk, which was mostly completed in 2008, was aimed at improving terminal infrastructure on the Russian side of the border. We have increased the terminal's throughput capacity by extending the existing loading fronts and building a number of additional loading fronts, as well as increasing the storage capacity of the terminal.

Our development of Zabaikalsk terminal is a part of a larger project for the development of cargo transit transportation between Russia and China, the main terms of which were agreed upon by a Russian and Chinese governmental project working group in May 2008. The development of Zabaikalsk terminal has been implemented in parallel with the infrastructure development project undertaken by Russian Railways to increase the throughput capacity of rail infrastructure in the region. We believe that, once the infrastructure development is completed, the crossing would attract substantial additional traffic flow, and may serve as an alternative to maritime container transport, especially with respect to shipments originating in the northern and central parts of China destined to Russia, and in transit, to Eastern and Western Europe.

#### *Bazaikha (Krasnoyarsk)*

Our terminal at Bazaikha (in the city of Krasnoyarsk) is our distribution hub for container traffic to destinations in central and western Siberia, as well as for transit traffic between the east and the west from China to the central part of Russia. This terminal is also a part of a major transport route between Europe and China and the Far East passing through Mongolia. There are a number of well-established routes to Russia through Mongolia, especially from the central and north-western region of China, which, because of the location, offer substantial savings to rail-based shippers compared to maritime shipment. The terminal is also located in the close proximity to the developing region of eastern Siberia.



The overall utilisation rate for this terminal was 45 percent in 2008, which includes ISO containers and MDCs. ISO container traffic is expected to grow and the terminal's ISO container handling facilities may grow close to maximum capacity. The development programme for Bazaikha, which we intend to complete by the end of 2012, is aimed at increasing the capacity of ISO handling facilities.

#### *Kleschikha (Novosibirsk)*

Our Kleschikha terminal (in the city of Novosibirsk) is our primary distribution hub for container traffic to destinations in central and western Siberia, as well as for transit traffic between the east and the west. The terminal is centrally located on a key regional railway junction, serving the Novosibirsk Region, Tomsk Region in the north, Kemerovo Region in the east, and Altai Region in the south, all of which are well-developed industrial regions in Siberia. The terminal also handles container traffic to and from Kazakhstan, transshipments between eastern and western Russia and container traffic to and from China and the Far East.

Due to its importance as a regional transportation hub and international transshipment centre, this terminal had a high utilisation rate of approximately 77 percent for the year ended 31 December 2008. The terminal development programme for Kleschikha, which we intend to complete by the end of 2012, is aimed at increasing the terminal's throughput capacity by extending the existing loading fronts and building a number of additional loading fronts, as well as increasing the storage capacity.

#### *Sverdlovsk-Tovarnaya (Yekaterinburg)*

Our Sverdlovsk-Tovarnaya terminal (in the city of Yekaterinburg) is the primary distribution hub for container traffic to destinations in the Urals region of Russia and for transit traffic. As a main regional transportation hub, this terminal serves the Sverdlovsk region as well as neighbouring Tyumen, Chelyabinsk and Perm regions, all of which are well-developed industrial regions in the Urals and Siberia. The terminal also handles container traffic between the central regions of Russia and Siberia, transshipments between eastern and western Russia and container traffic to and from China and the Far East. In 2008, the terminal's utilisation rate was approximately 79 percent. The terminal development programme for Sverdlovsk, which we intend to complete by the end of 2013, is aimed at increasing the terminal's container loading capacity and storage capacity, partly by converting MDC designated areas for ISO container use.

#### *Kostarikha (Nizhniy Novgorod)*

Our Kostarikha terminal (in the city of Nizhniy Novgorod) is our primary distribution hub for container traffic to destinations in the central, western and south-western parts of Russia, as well as for transit traffic to and from Eastern and Western Europe. In 2008, the terminal's utilisation rate was approximately 91 percent. The terminal development programme for Kostarikha, which we intend to complete by the end of 2011, is primarily aimed at increasing the capacity of its ISO container handling facilities.

In addition, we contemplate upgrading certain other terminals in accordance with our strategic growth initiatives. The upgrades would include redesigning loading operations to focus on handling growing volumes of ISO container flow rather than on MDCs, extending loading fronts, modernising terminal machinery and equipment to increase the efficiency of container handling at these terminals, and upgrading communications and IT infrastructure.

#### *Bonded warehousing facilities*

We have already established and continue to work on the development of bonded warehousing facilities for container storage pending customs clearance (which are typically yards or warehouses where containers are kept until customs clearance is completed), which allow for the complete customs clearance process to be finalised at our terminal, which is both time- and cost-efficient for customers. We have already established 10 bonded warehouses at our terminals and plan to establish 7 additional facilities (4 in 2010 and 3 in 2011) at other terminals. Our bonded warehousing facilities have a combined total area of more than 20,000 square meters as of 30 June 2010.

#### *Joint venture with Kazakh Railways*

We are currently negotiating the acquisition of an equity stake in KDTS, a leading private operator of cargo handling terminal facilities and a provider of freight forwarding and logistics services in Kazakhstan. Our ultimate goal in acquiring shares in KDTS is to form a joint venture with Kazakh Railways, to jointly operate certain cargo handling terminal facilities as well as to jointly operate flatcars and transport containers in Kazakhstan.

KDTS was established as a private business entity in 1999, having previously existed as a state company. Currently, KDTS is considered to be one of the largest private rail transportation services providers in Kazakhstan. Its main

business is the provision of cargo handling services at terminals, most of which are leased from Kazakh Railways. One of the terminals at which KDTS provides cargo handling services is the border crossing terminal at Dostyk. Dostyk terminal, located on the border between Kazakhstan and China, is strategically important to us because it is a key entry point for cargo traffic from China into Kazakhstan, and further to other Central Asian countries, Russia and Europe. If the acquisition of the shares in KDTS and formation of the joint venture with Kazakh Railways is successfully completed, we intend to manage cargo handling yards at Dostyk terminal jointly with Kazakh Railways, which we expect will allow us to significantly increase the transported cargo flows to and from China.

In December 2009, we signed a non-binding term sheet with the current shareholders of KDTS to purchase 46.9 percent of its shares. It is currently envisaged that we may initially purchase up to 67 percent of KDTS shares from its current shareholders. However, the target structure of the deal contemplates a 50/50 indirect ownership of KDTS by us and Kazakh Railways. A resolution of the Board of Directors adopted in June 2010 requires that prior to the completion of the purchase of a 67 percent stake in KDTS, we and Kazakh Railways must sign a shareholders' agreement with respect to the management and governance of KDTS.

## **Trucks**

As at 30 June 2010, our truck fleet consisted of more than 300 truck tractors and approximately 500 container semitrailers, the latter consisting of approximately 300 units for 20-foot containers and approximately 200 units for 40-foot containers. We obtained a portion of our truck fleet, upon our formation, through a contribution of assets by Russian Railways. The average truck depreciation in our fleet is between 60 and 81 percent, depending on the type of trucks. Pursuant to our strategic initiative to increase our offering of integrated logistics services, we plan to expand our truck fleet. Currently, approximately 60 percent of our trucking services are being outsourced to third-party providers. As the volume of our "last mile" trucking services continues to increase, we seek to continue increasing our truck fleet to gain more flexibility in our "last mile" delivery services as well as reduce our dependence on third-party providers and to gain additional leverage in negotiations with them.

We plan to increase our container truck fleet in the next two years from 903 units we had at the beginning of 2010 to 975 units by the end of 2012, so that between 40 and 50 percent of "last mile" delivery services are processed by our own fleet, which will provide us with flexibility in serving our key customers and in negotiations with third-party providers.

We perform two types of truck maintenance: regular maintenance and complete overhaul. Regular maintenance is an ongoing process of technical inspection and minor repair performed by our staff certified to perform this function. Overhaul repairs are outsourced to third parties that provide this service on a contractual basis.

## **COMPETITIVE ENVIRONMENT**

We believe that because we have the largest fleet of flatcars in Russia, serving over 300,000 routes and a nationwide network of 46 rail-side container terminals in Russia and 1 in Slovakia, we are the leader in container transportation by rail and rail-side container terminal services in Russia. Nonetheless, we experience limited competition on certain railway routes and terminal locations with a number of transportation companies. We also compete with freight forwarding and logistics companies for the provision of freight forwarding services.

We consider nationwide competitors to include Far Eastern Shipping Company (FESCO), Modul, Far Eastern Transportation Group (DVTG), Eurosis. Set out below is a brief description of each of these competitors.

### **FESCO**

FESCO is a Russian transportation company, which through its subsidiaries, provides container transportation services. In 2009, FESCO transported 101,156 TEUs by rail. While FESCO's rail-based container transportation services compete with ours, the competition is limited to only a few routes; for example, on the East-West corridor between ports of Russia's far East and European part of Russia. FESCO develops and operates four container terminals, two of them under construction. Because terminals are located at, or in the vicinity of, ports, with no significant rail-side terminal presence, we believe that FESCO's terminals do not currently compete with our terminal business.

### **DVTG**

DVTG is a provider of rail-based container transportation, terminal and logistics services. In 2009, through a subsidiary, DVTG owned and operated approximately 4,000 flatcars, approximately 10,000 containers. DVTG competes directly with us on a limited number of routes. DVTG has two operating container terminals and one terminal under construction. DVTG's terminal in Moscow region competes with our terminals in this location;

however, overall, DVTG's terminal business does not represent a competitive threat to us due to its lack of a terminal network comparable to ours.

During the economic downturn, DVTG faced serious financial problems and defaulted under its loan and bond obligations. It resulted in customer outflow and reduction of their flatcar fleet from approximately 4,000 to less than 600 units, primarily due to banks' foreclosures. In 2009, DVTG's share in container transportation market (by volumes transported) declined from 3.7 percent to 1.6 percent.

### **Eurosib**

Eurosib is a provider of rail-based transportation of various cargo including containers. Eurosib has a small number of multi-purpose flatcars. Eurosib currently operates one container terminal in Saint-Petersburg and two additional terminals (one in Saint-Petersburg and one in Novosibirsk) are being constructed.

### **Modul**

Modul is a private provider of rail-based transportation services, being focused on container transportation of pulp and paper, as well as chemicals. Currently it is our closest competitor within the pulp and paper segment. Modul has a market share of approximately seven percent by TEUs in the first half of 2010, according to A.T. Kearney.

### **INFORMATION TECHNOLOGY**

We have developed and continue to improve an integrated information technology system that allows us to effectively manage our unique asset mix. Our system enables us to provide a full range of comprehensive container transportation solutions to our large and diversified customer base.

Our information technology system provides us with information on the location of our rolling stock and containers, and real-time updates and historical data with respect to the movement of containers and flatcars. Through the use of our information technology system, we are capable of analysing the commercial feasibility of new and existing routes and destinations as compared to competing transportation solutions or alternative transportation modes. The system also calculates transportation service prices, based on a complex system of criteria, the tariff components of the price and railcar charge driven by the nature and volume of the cargo, requisite route, distance carried and certain other criteria. It also enables us to provide additional value-added services such as dispatching and tracing services.

Another important component of our information system is its ability to provide repair and maintenance information for our rolling stock. We use this information to facilitate regular, timely and efficient maintenance of our flatcar and container fleet, for example, by arranging for the delivery of cargo to locations near a repair depot by the flatcars that are in need of repair.

Our information technology system includes commercial and proprietary software, which enables us to integrate accounting and reporting environments and manage customer relations and document flow, including a software system responsible for the storage and processing of transportation data and shipment documentation. Our system is integrated with the information systems of Russian Railways which enables us to integrate customer transportation contracts and documentation with up-to-date transport control and tracking information. While other operators may also have access to the information systems of Russian Railways, we believe that because of our knowledge of the systems and technologies of Russian Railways, we are able to achieve a greater level of integration with its systems.

We also use a range of accounting, management information and financial software systems. We intend to continuously develop and upgrade our information systems and software used in line with our business development and expansion plans. We are also developing internet-based applications to enable customers to track their cargo movement and to fill out order request forms via internet portals. Pursuant to our planned capital expenditure for 2010 to 2012, we intend to invest nearly 325 million RUR in the development of our information systems.

### **EMPLOYEES**

The average number of employees in the first half of 2010 was 5,146. We believe that staff turnover has been stable, representing 10.5 percent in 2008, 6.7 percent in 2009 and 4.5 percent for the first half of 2010 (9 percent annualised). Management believes that this stability demonstrates the loyalty of our employees and our ability to retain and promote qualified personnel.

We have instituted a programme of incentives for staff including an employee bonus system based on quarterly and annual performance. Our employee policy is focused on the professional development of employees and the creation of a positive working environment. We provide health insurance for all employees. Other benefits include a

non-state pension programme, a home-buyer assistance programme for those employees wishing to purchase a house or an apartment and other programmes for employees and members of their families.

Relations between us and our employees are regulated by applicable Russian federal and local labour legislation. We have entered into a collective bargaining agreement with the national trade union of railway and transport construction workers. Over 90 percent of our labour force are members of the union. The term of the collective bargaining agreement is until 31 December 2010, and it is renewed annually. We have not experienced any strikes, work stoppages, labour disputes or actions that have materially affected the operation of our business. We consider our relationship with our workforce to be good.

#### **INSURANCE**

All rolling stock leased by us is insured for loss or damage. Under the existing legal liability regime and based on the current scope of our operations, we do not believe we have significant exposure to third-party liability in the ordinary course of our business.

#### **ENVIRONMENTAL**

Our operations may create potential for environmental liabilities with respect to certain services we perform. Our containers may on occasion transport environmentally sensitive or hazardous materials. Any accidents involving such environmentally sensitive or hazardous substances resulting from services which we perform, such as loading and unloading containers onto flatcars, fastening cargo inside of containers and transporting containers on our trucks, among others, may subject us to liability if such accidents have resulted from our fault. Moreover, we may be subject to governmental action if our services were carried out in violation of environmental law or health and safety regulations. However, if any such accident occurs as a result of the negligence of Russian Railways, it would be liable as the owner and operator of the railway infrastructure and the provider of locomotive services.

We believe that we are in compliance with applicable environmental legislation. We are not aware of any current, pending or potential material environmental claims against us. We did not record any material liabilities associated with, or make any material payments relating to, environmental costs as of 30 June 2010, and for the years ended 31 December 2009 or 2008. Furthermore, under the initiative of EBRD, we have developed, and are in the process of implementing, an environmental action plan, which is aimed at preventing, and reducing the impact of any future accidents.

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

From time to time, we are involved in litigation as a plaintiff or defendant in court proceedings arising in the ordinary course of our business. We do not believe that any of the litigation or proceedings in which we have been or are currently involved is likely, individually or in aggregate, to have a material adverse effect on our business or financial position.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Pursuant to the Joint Stock Companies Law and the Company's charter, members of the Board of Directors are elected annually by a general meeting of shareholders. A person elected as a member of the Board of Directors may be re-elected an unlimited number of times. The business address for each of our directors is 15A, Kalanchevskaya Street, Moscow, 107174, Russian Federation. As at the date of the Prospectus, the membership of the Board of Directors is set out below:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Since</u>	<u>Nominated by</u>
Mr. Dmitry Novikov . . . . .	1969	Chairman of the Board of Directors	2008	Russian Railways
Mr. David Hexter . . . . .	1949	Member of the Board of Directors and the Chairman of the Audit Committee, Independent director	2008	Independent director
Ms. Irina Shytkina . . . . .	1965	Member of the Board of Directors, Chairwoman of the Personnel and Remuneration Committee, Independent director	2010	Independent director
Mr. Alexey Davydov . . . . .	1971	Member of the Board of Directors, Chairman of the Strategy Committee	2010	Russian Railways
Mr. Peter Baskakov . . . . .	1961	Member of the Board of Directors and our CEO	2006	Russian Railways
Mr. Genna Lozovsky . . . . .	1972	Member of the Board of Directors	2008	Minority shareholders
Ms. Zhanar Rymzhanova . . . . .	1968	Member of the Board of Directors	2008	EBRD
Mr. Alexey Averin . . . . .	1962	Member of the Board of Directors	2008	Russian Railways
Mr. Ilya Ryaschin . . . . .	1973	Member of the Board of Directors	2010	Russian Railways

#### **Mr. Dmitry Novikov (41) — Chairman of the Board of Directors**

Dmitry Novikov has been a member and the Chairman of the Board of Directors since 2008. Mr. Novikov has more than 15 years of management experience. He graduated from Moscow Finance Institute in 1993 with a degree in economics. Mr. Novikov began his career at commercial bank OJSC Eurofinance in 1992, where he worked until 1998, and eventually became the head of the bank's project finance department. Between 1998 and 2000, Mr. Novikov was the head of the investment department and then the head of the investor relations department at VTB. In 2002, he became a vice-president in charge of investment strategy development at the Russian diamond monopoly ALROSA. In 2007, he was appointed as an adviser to the president of Russian Railways and to the president of TransCreditBank. Mr. Novikov has also been a member of the board of directors of a number of Russian Railways' subsidiaries, including OJSC RZDstroy, OJSC Freight One, OJSC Rail Trade Company and OJSC ELTEZA, each since June 2010, and CJSC Transmashholding, a Russian Railways' affiliate, since 2008. Mr. Novikov has also been the CEO of OJSC KRP-Invest, a Russian Railways' subsidiary since 2008.

#### **Mr. David Hexter (61) — Member of the Board of Directors, Chairman of the Audit Committee, Independent director**

David Hexter was elected as an independent non-executive member of the Board of Directors in 2008. Mr. Hexter is also the Chairman of the Board of Directors' Audit Committee. Mr. Hexter has 40 years of business experience, including 35 years of banking experience. He graduated from Oxford University in 1970 with a degree in philosophy, politics and economics. In 1974, he received an MBA from Cranfield Management School. In 2008, he received a degree in legal and political theory from University College London. Currently Mr. Hexter works as a professional non-executive director and a business consultant. Between 1970 and 1992, he occupied various positions with Citibank. Between 1992 and 2004, he worked for the EBRD, where he focused on investments in infrastructure projects and small business. Since 2004, Mr. Hexter has served as a member of the board of directors of several banks and investment companies. Mr. Hexter is also a member of the board of directors of JSC Bank Kaspiy.

**Ms. Irina Shytkina (45) — Member of the Board of Directors, Chairwoman of the Personnel and Remuneration Committee, Independent director**

Irina Shytkina was elected as an independent non-executive member of the Board of Directors in 2010. Ms. Shytkina is the Chairwoman of the Board of Directors' Personnel and Remuneration Committee. She graduated from the Moscow State University in 1988 with a law degree. She is a doctor of legal sciences and a professor at Moscow State University chairing the entrepreneurial law department. Ms. Shytkina is a member of the board of directors and supervisory boards of several other companies. She is also the chairwoman of the supervisory board and a deputy CEO at OJSC Holding Company Elinar.

**Mr. Alexey Davydov (39) — Member of the Board of Directors, Chairman of the Strategy Committee**

Alexey Davydov was elected as a member of the Board of Directors in 2010. Mr. Davydov graduated from St. Petersburg Engineering Economic Institute in 1993 with a degree in economics. He also received a law degree from St. Petersburg State University in 1999. Mr. Davydov began his career as a senior specialist at OJSC Bank Menatep in 1994. In 2001, he became the head of internal control services and the chief financial officer at OJSC Leningradsky Metallichesky Zavod. Between 2004 and 2006, he held various management positions in OJSC Power Machines. In 2006, he joined Russian Railways to head its treasury department and in 2010 became the head of its subsidiaries and affiliates management department.

**Mr. Peter Baskakov (49) — Member of the Board of Directors and our CEO**

Peter Baskakov has been a member of the Board of Directors and the CEO since the Company's formation as an open joint stock company in 2006. Mr. Baskakov has over 24 years of experience in the Russian railway transportation industry. He graduated from Moscow Institute for Railway Transport Engineers in 1986 with a degree in management of railway transportation processes. Between 1986 and 1993, Mr. Baskakov held management positions in the Podolsk Production and Railway Transportation Enterprise of the Russian Ministry of Transportation. In 1993, he was appointed as the head of Moskva-Tovarnaya-Kurskaya station, a Moscow rail-side cargo terminal. Between 1999 and 2000, Mr. Baskakov held management positions in Moscow Railways, and was appointed as the head of the Moscow Railway Container Shipping Department in 2000. Since 2003, Mr. Baskakov was the head of TransContainer (then a branch of the Russian Railways).

**Mr. Genna Lozovsky (38) — Member of the Board of Directors**

Genna Lozovsky was nominated to the Board of Directors by Moore and GLG and has been a member of the Board of Directors since 2008. Mr. Lozovsky graduated cum laude from the University of Chicago, with a concentration in economics and statistics. He has more than 15 years of experience in investment management and banking in Russia, Western Europe and the United States. Mr. Lozovsky worked in the mergers and acquisitions department of Credit Suisse in New York, as a Vice President of Renaissance Capital, and a Managing Director of the Sputnik Funds and Delta Private Equity Partners. He has served on the boards of over a dozen companies whose principal activities relate to the former Soviet Union. Currently, Mr. Lozovsky is a partner of Salute Capital Management Limited, an investment manager.

**Ms. Zhanar Rymzhanova (42) — Member of the Board of Directors**

Zhanar Rymzhanova was elected as a member of the Board of Directors in 2008, nominated by EBRD. Ms. Rymzhanova graduated from Kazakh State Management Academy in 1989 with a degree in economics and received a certificate in emerging markets programme from Georgetown University in 1997. Between 2003 and 2010, she held the position of the Senior/Principal Banker at the EBRD. Currently, Ms. Rymzhanova is the Director of the Energy and Infrastructure Department (Russia) at the EBRD.

**Mr. Alexey Averin (48) — Member of the Board of Directors**

Alexey Averin has been a member of the Board of Directors since 2008. Mr. Averin graduated from Moscow State Institute of International Relations in 1984 with a degree in economics. After graduation and until 2005, Mr. Averin worked at the Ministry of Foreign Affairs holding various positions, including foreign service assignments in Czechoslovakia (5 years) and the Republic of South Africa (4.5 years), eventually becoming the head of the Consulate Department. From 2005 to 2010, Mr. Averin held the position of the head of the Department of International Relations at Russian Railways. Currently he serves as an advisor to the president of Russian Railways.

**Mr. Ilya Ryaschin (37) — Member of the Board of Directors**

Ilya Ryaschin was elected as a member of the Board of Directors in 2010. He graduated from Lobachevsky State University of Nizhny Novgorod in 1996 with a degree in finance and economics. In 2002, Mr. Ryaschin was appointed as a deputy head of the Department of Finance of the Ministry of Railways. Since 2003, he served as deputy head and the first deputy head of the corporate finance department of Russian Railways. In 2006, he became a head of the planning and budget department of Russian Railways. Mr. Ryaschin is also the chairman of the board of directors of OJSC Freight One.

In the previous five years, no member of the Board of Directors of the Company has been convicted of any fraudulent offense; served as a director, partner, founder or senior manager of any organisation that had any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities, including designated professional bodies, or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

**SENIOR MANAGEMENT**

The Company’s sole executive body is the CEO. The Company does not have a collective executive body, i.e. a management board, which is optional under Russian law. The business address for each of our senior managers is 15A, Kalanchevskaya Street, Moscow, 107174, Russian Federation. The following senior managers play a significant role in the management of the Company:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Year Appointed</u>	<u>Service term</u>
Mr. Peter Baskakov . . . . .	1961	CEO	2006	3 years expiring on 10/02/2012
Mr. Vladimir Drachev . . . . .	1951	First Deputy CEO	2006	Unlimited
Mr. Victor. Shekshuev . . . . .	1961	Deputy CEO for Operations	2006	Unlimited
Mr. Pavel Chichagov . . . . .	1953	Deputy CEO for Business Development	2006	Unlimited
Mr. Anton Lopatin . . . . .	1975	Deputy CEO for Economics and Finance	2008	Unlimited
Mr. Nikolay Averkov . . . . .	1947	Deputy CEO for Human Resources and Marketing	2010	Unlimited

**Mr. Peter Baskakov — CEO**

See “*Directors*” above.

**Mr. Vladimir Drachev (59) — First Deputy CEO**

Vladimir Drachev became our First Deputy CEO in 2008, having served as our Deputy CEO for Production since 2006. Mr. Drachev has over 24 years of experience in the Russian railway transportation industry. He graduated from Krasnoyarsk Technical School for Rail Transport in 1970 and the Irkutsk Institute of Railway Engineers in 1982, majoring in railways operations. Between 1975 and 1992, he held various positions in the East-Siberian and Krasnoyarsk Railroads. Since 1992, he was appointed as the first deputy head of Krasnoyarsk Railway. In 1997, he became the deputy head of the Department of Management of the Ministry of Railways. He then served as a consultant for domestic and international transportation at CJSC Development, Servicing and Forwarding of Freight Traffic. In 2002, Mr. Drachev was appointed as the head of the Department of Transportation Management of the Ministry of Transportation, and from 2005 until 2006 he served as the first deputy head of Sverdlovsk Railway.

**Mr. Victor Shekshuev (49) — Deputy CEO for Operations**

Victor Shekshuev was appointed as our Deputy CEO for Operations in 2008. Mr. Shekshuev graduated from Moscow State University of Railways in 1998 majoring in organisation of transportation and management of railways. In 2001, he completed a professional training course in management at the Russian Railway Academy, and in 2006, completed a training course in management and competitive strategy (developed by the Harvard Business School) at Moscow Financial and Economic Institute. Mr. Shekshuev began his career at Moscow railways in 1984. Between 1994 and 1998, he held various positions at Moskva-Passazhirskaya-Kurskaya and Moskva-Tovarnaya-Kurskaya rail stations. Between 1998 and 2004, he was the Station Master of

Moskva-Passazhirskaya-Kurskaya station. In 2004, he became a deputy CEO of TransContainer (then a branch of Russian Railways). In 2006, he became our Deputy CEO for Economics, and in 2008, was promoted to his current position.

**Mr. Pavel Chichagov (57) — Deputy CEO for Business Development**

Pavel Chichagov has been our Deputy CEO for Business Development since 2006. Mr. Chichagov graduated from Gorky State University in 1975 with a degree in radiophysics, and graduated from the Finance Academy of the Russian Government in 1999, with a degree in economics. In 2005, he received an MBA degree from the Academy of the National Economy of the Russian Government. In 2009, Mr. Chichagov also received a degree in corporate governance from the Higher School of Economics. He began his career in 1975 as an engineer with the Gorky Science and Research Radiophysics Institute, after which he worked at the Institute of Applied Physics of the Academy of Sciences (Nizhniy Novgorod) first as an engineer, then as a junior scientist, and finally as a scientist. Between 1994 and 1997, he held the position of the Head of the Nizhniy Novgorod branch of the Center for Economic and Political Research. In 1997, he was a consultant for the Ministry of Transportation, and then, until 2003, held the position of the Head of Railway Transportation Reforms Department of the Ministry of Transportation. From 2003 to 2006, he was the Head of the Department of Corporate Structuring and Reform at Russian Railways.

**Mr. Anton Lopatin (35) — Deputy CEO for Economics and Finance**

Anton Lopatin has been our Deputy CEO for Economics and Finance since 2008. Mr. Lopatin graduated from the State University of New York in 2000 with a degree in economics. In 2008, he received an MBA degree from INSEAD Business School. Between 2000 and 2006, Mr. Lopatin worked at the major Russian pharmaceutical company Protek, holding various management positions. In 2004, he became Protek's Chief Financial Officer.

**Mr. Nikolay Averkov (63) — Deputy CEO for Human Resources and Marketing**

Nikolay Averkov has been our Deputy CEO for Human Resources and Marketing since February 2010. Mr. Averkov graduated from the Leningrad Shipbuilding Institute with a degree in Aerohydrodynamics. In 2004, he also completed a management training course at the State Academy for Professional Retraining of Management Personnel, and in 2008 a course for corporate directors at the Higher School of Economics. Between 1978 and 1999, he worked for various sea shipping companies. Between 2000 and 2003, he worked for Promexport and Rosoboronexport, both state enterprises. Between 2003 and 2010, Mr. Averkov held various management positions in Refservice, a Russian Railways' subsidiary, including the position of the CEO from 2006 to 2010.

**MANAGEMENT RESPONSIBLE FOR INVESTOR RELATIONS AND CORPORATE GOVERNANCE**

**Mr. Andrey Zhemchugov (37) — Director for Capital Markets and Investor Relations**

Andrey Zhemchugov has been the head of our Capital Markets and Investor Relations department since 2007. Mr. Zhemchugov graduated cum laude from the Moscow State University in 1994 with a degree in economics. In 1998, he received a PhD in economics from the Institute of USA and Canada of the Russian Academy of Sciences. Between 1996 and 2001, Mr. Zhemchugov held a number of positions with Russian banks where he supervised corporate finance projects and capital market transactions. From 2001 to 2005, he worked for OJSC Bank of Moscow, first, as the Deputy Head and, then, as the Head of Capital Markets Department, where he was responsible for syndicated lending and international debt capital markets transactions. In 2005, he was appointed as an advisor to the president of ALROSA, responsible for investor relations and capital markets transactions.

**Ms. Olga Miller (34) — Director for Corporate Governance**

Olga Miller has been the Director for Corporate Governance since 2007. Ms. Miller graduated cum laude from Chelyabinsk State University in 1999 with a law degree. She has also received a degree in corporate governance from the Higher School of Economics in 2007. Ms. Miller began her career as an attorney at the Chelyabinsk regional office of the FSFM, where she eventually became the head of the legal department. Between 2001 and 2004, Ms. Miller held various management positions at OJSC RAO UES of Russia (also known as the Unified Energy System of Russia). In 2004, Ms. Miller joined Russian Railways as the head of a division in the subsidiaries and affiliates management department.

In the previous five years, no senior manager of the Company has been convicted of any fraudulent offense; served as a director, partner, founder or senior manager of any organisation that had any bankruptcies, receiverships or liquidations; was subject to any official public incrimination or sanctions by statutory or regulatory authorities,



including designated professional bodies, or has been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

### ***Conflicts***

There are no potential conflicts of interest between any duties of the directors and managers to us and their private interests and/or other duties and no arrangements or understandings with major shareholders, members, customers, suppliers or others, pursuant to which any of the directors and senior managers were selected.

## **COMPENSATION OF DIRECTORS AND MANAGERS**

### **Directors and review commission compensation**

In December 2006, the Company's general meeting of shareholders approved an internal regulation on the remuneration programme for the Board of Directors and the review commission members. The new internal regulation on remuneration for the directors was approved by the general meeting of shareholders of the Company in September 2008. The regulations provide that each director and each member of the review commission is entitled to a payment that consists of two parts: compensation for participating in a Board of Directors or review commission meeting, and an annual bonus.

Directors receive annual compensation which consists of a fixed portion and a portion which depends on capitalisation growth. The fixed portion of the compensation is calculated in accordance with formulae provided for in the Company's by-laws. Compensation relating to capitalisation growth shall be implemented through providing the Company's ordinary shares in the amount equivalent to US\$70,000 for each member of the Board of Directors. Although the relevant by-laws were approved in 2008, no shares were provided to the members of the Board of Directors in 2008 and in 2009, as the Company's shares were not traded on any stock exchange at that time. In addition, the members of the Board of Directors receive compensation for attending Board of Directors meetings in an amount equal to three times the minimum wage adopted by Russian Railways, which is currently RUR 5,096. The total annual compensation for all of the directors cannot exceed two percent of the Company's annual net profit calculated under RAS. The Chairman of the Board of Directors and his deputy(ies) are entitled to increased compensation that is respectively 1.5 times and 1.25 times higher than for other directors. There are no amounts set aside or accrued by us to provide pension, retirement or similar benefits to the directors.

For members of the review commission, the payment for participating in a review commission meeting is three times the minimum wage adopted by Russian Railways and is paid out in the month following each audit, check or revision. An additional bonus is optional and may be awarded on an individual basis by the general meeting of shareholders of the Company. The amount awarded may not exceed 20 times the minimum wage adopted by Russian Railways. The chairman of the review commission is entitled to an increased bonus that is 1.5 times higher than for other members of the review commission.

The annual bonus payable to the Board of Directors and the additional bonus for the members of the review commission may be withheld by a vote at a general meeting of shareholders if we have suffered a net loss calculated under RAS for the respective preceding financial year.

In June 2010, the annual general meeting of shareholders of the Company approved annual compensation to the members of the Board of Directors in the amount of RUR 13.4 million, which is a reduced amount from the total compensation payable to the Board of Directors in accordance with the by-laws, as five members nominated by Russian Railways opted not to receive a portion of compensation relating to the Company's capitalisation growth.

### **Management compensation**

In June 2010, a new policy on incentives for the senior management was adopted by the Board of Directors, establishing the principle for the determination of base salaries and annual bonuses for senior managers. Pursuant to the policy, the annual bonus of each senior manager depends on whether they achieve key performance benchmarks, which are currently being developed and remain subject to approval by the Board of Directors. The total amount of annual bonuses for all of the senior management may not exceed two percent of the Company's net profit in the relevant year, as calculated under RAS. See "*Related Party Transactions — Compensation of Key Management Personnel*".

### **Management share option programme**

On 20 October 2010, the Board of Directors approved the stock option programme for certain managers eligible to participate in it. The stock option programme provides for the grant of options to acquire up to 208,421 ordinary shares of the Company, exercisable over the four-year period beginning in 2011, with up to 25 percent of the options exercisable annually. It is intended that the options will be granted following the completion of the Offering. The price per ordinary share payable upon exercise of an option is the price at which a Share is priced in the Offering.

### **COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors has three committees: the Audit Committee, the Strategy Committee and the Personnel and Remuneration Committee.

#### **Audit Committee**

The Board of Directors approved the by-laws of the Audit Committee on 26 June 2008. Pursuant to the by-laws, the Audit Committee must be comprised of at least three members. Currently, it consists of three members and is chaired by an independent director. The Audit Committee is responsible for, among other matters: (i) control over the accuracy and completeness of our financial statements, including implementation of a business plan and budget; (ii) ensuring the efficiency of our internal control and risk management systems; and (iii) cooperation with our external auditor. In addition, the Audit Committee is responsible for the organisation of tenders to select the external auditor for both RAS and IFRS accounts. We also have an internal audit department that reports to the Audit Committee. The Board of Directors adopted the by-laws of the internal audit department on 12 August 2009. The internal audit department is responsible for, among other things, control over our finance and business activities and investigation of illegal acts or omissions by our officers, managers and employees.

The members of the Audit Committee are as follows:

- Mr. David Hexter, the Chairman of the Audit Committee;
- Mr. Alexey Averin; and
- Ms. Irina Shytkina.

Mr. David Hexter and Ms. Irina Shytkina are independent directors. Mr. Alexey Averin was nominated to the Board of Directors by Russian Railways.

#### **Strategy Committee**

The Board of Directors approved the by-laws of the Strategy Committee on 26 September 2008. In accordance with the by-laws, the Strategy Committee must be comprised of at least three members. Currently, it consists of four members. The Strategy Committee plays a key role in defining our strategic goals and objectives, advises the Board of Directors on the implementation of our strategic goals and objectives and oversees their implementation.

The members of the Strategy Committee are as follows:

- Mr. Alexey Davydov, the Chairman of the Strategy Committee;
- Mr. Peter Baskakov;
- Mr. Genna Lozovsky; and
- Mr. Ruslan Valeev.

Mr. Peter Baskakov is our CEO. Mr. Alexey Davydov was nominated to the Board of Directors by Russian Railways. Mr. Genna Lozovsky was nominated to the Board of Directors by our minority shareholders, GLG and Moore. Mr. Ruslan Valeev is not a member of the Board of Directors. He is a deputy head of the subsidiaries and affiliates department of Russian Railways.

#### **Personnel and Remuneration Committee**

The Board of Directors approved the by-laws of the Personnel and Remuneration Committee on 21 July 2010. In accordance with the by-laws, the Personnel and Remuneration Committee must be comprised of at least three members and currently consists of four members. The Personnel and Remuneration Committee prepares recommendations for the Board of Directors relating to the development of incentive systems for the members of the Board of Directors and members of the committees of the Board of Directors and management, the selection

of candidates for the Board of Directors, and determining criteria for the valuation of the management's performance.

The members of the Personnel and Remuneration Committee are as follows:

- Ms. Irina Shytkina, the Chairwoman of the Personnel and Remuneration Committee;
- Mr. Alexey Averin;
- Mr. Ilya Ryaschin; and
- Ms. Irina Kostenets.

Ms. Irina S. Shytkina is an independent director. Mr. Alexey Averin and Mr. Ilya Ryaschin were nominated to the Board of Directors by Russian Railways. Ms. Irina Kostenets is not a member of the Board of Directors. She is the head of the Russian Railways department for organisational and staffing matters.

## PRINCIPAL AND SELLING SHAREHOLDERS

The Company's share capital is RUR 13,894,778,000, consisting of 13,894,778 ordinary shares with a nominal value of RUR 1,000 each. The following table sets out certain information with respect to the ownership of our ordinary shares, based on an aggregate of 13,894,778 ordinary shares outstanding as at the date of this prospectus, by each shareholder, immediately prior to the Offering and immediately following the Offering:

	Immediately prior to the Offering		Immediately following the Offering <sup>(2)</sup>	
	Number of ordinary shares	Approximate Percent	Number of ordinary shares	Approximate Percent
Russian Railways <sup>(1)</sup> . . . . .	11,810,562	85.0%	7,155,813	51.5%
EBRD . . . . .	1,284,574	9.25%	1,284,574	9.25%
Moore . . . . .	347,369	2.5%	—	—
Other minority <sup>(3)</sup> shareholders . . . . .	347,369	2.5%	347,369	2.5%
TransCreditBank . . . . .	104,904	0.75%	104,904	0.75%
Free float . . . . .	—	—	4,654,749	33.5%
Total . . . . .	<u>13,894,778</u>	<u>100.0</u>	<u>13,894,778</u>	<u>100.0</u>

Note:

- (1) One ordinary share is owned by OJSC Baminvest, a Russian Railways' subsidiary.
- (2) Excludes any sales of Management Incentive Shares.
- (3) We have been informed that GLG Emerging Markets Special Situations Fund sold its stake in our company to an unrelated third party. The terms of the sale were not disclosed to us.

### *Russian Railways*

The Russian Federation, represented by the Russian government, owns 100 percent of Russian Railways. Russian Railways is one of the world's largest transportation companies and is a natural monopoly in respect to railway transportation in Russia. The physical rail infrastructure of common use and almost all of the locomotives in Russia are owned by Russian Railways. Russian Railways' business address is 2 Novaya Basmannaya Street, Moscow, 107174, Russian Federation.

Prior to February 2008, the Company was a 100 percent owned subsidiary of Russian Railways. In February 2008, Russian Railways completed a transaction for the sale of 15 percent of our ordinary shares in a private placement. In that transaction, 9.25 percent of our shares were acquired by EBRD and 5.75 percent by private investors. Subsequently, TransCreditBank purchased 0.75 percent of the Company's shares. As of 30 June 2010, 85 percent of our shares were owned by Russian Railways, with the remaining 15 percent owned by the minority shareholders.

Russian Railways, as a major shareholder of the Company, does not have any voting rights which are different from other shareholders' voting rights. However, as Russian Railways owns and will continue to own following the Offering over 50 percent of the Company's shares, it has the ability to determine most issues at the general meeting of shareholders at its sole discretion and has and will continue to have a majority of representatives on the Board of Directors. Russian law and the Company's internal documents and policies provide for certain measures to prevent abuse of the control exerted by Russian Railways, including a special procedure for approval of transactions between the Company, on the one hand, and Russian Railways and its affiliates, on the other hand, cumulative voting procedure to elect members of the Board of Directors, committees of the Board of Directors, independent directors on the Board and other measures. See "*Description of Share Capital and Applicable Russian Law*". In addition, shareholders' arrangements between Russian Railways and EBRD have provided EBRD with veto rights on most significant decisions adopted by the Board or the general meeting of shareholders between February 2008 and the date of the Offering. Such veto rights will terminate once the Offering is completed.

### *Moore*

Moore Transcontainer Ltd. is a company incorporated in the Bahamas, located at One Montague Place, 1st Floor, East Bay Street, P.O. Box N-4906, Nassau, New Providence, The Bahamas. Moore is an investment fund managed by Moore Capital Management, LP an investment company, located at 1251 Avenue of the Americas, New York, N.Y. 10020, USA. Moore purchased 2.5 percent of the Company's shares at the time of the private placement in 2007–2008. There have been no material relationships between Moore and us (other than as a Selling Shareholder) or our affiliates, over the last three years.

## RELATED PARTY TRANSACTIONS

### RELATED PARTY TRANSACTIONS

In accordance with IAS 24 “Related party disclosures”, 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 or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. In addition, Russian law requires that any “interested party transaction” (as defined pursuant to the Joint Stock Companies Law) is approved in accordance with established procedures. See “*Description of Share Capital and Applicable Russian Law*”.

Related parties may enter into transactions that unrelated parties would not. In addition, transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom we entered into significant transactions or had significant balances outstanding as of 30 June 2010 are disclosed below:

<u>Related party</u>	<u>Nature of relationship</u>
OJSC Russian Railways . . . . .	Parent company
OJSC TransCreditBank . . . . .	Subsidiary of Russian Railways and one of the Managers in the Offering
LLC FinanceBusinessGroup . . . . .	An entity related to TransCreditBank
CJSC Sberbank Leasing . . . . .	Subsidiary of Sberbank
LLC Finans-Proekt . . . . .	An entity related to TransCreditBank
LLC Zapadny Port . . . . .	Subsidiary of LLC Finans-Proekt
LLC Refservice . . . . .	Subsidiary of Russian Railways
LLC Roszheldorstroy . . . . .	Subsidiary of Russian Railways
LLC Trans-Invest . . . . .	An entity related to Fund Blagosostoyanie
Fund Blagosostoyanie . . . . .	Post-employment benefit plan for our employees
Fund Pochet . . . . .	Post-employment benefit plan for our employees

We are ultimately controlled by the Russian government and therefore all companies controlled by the Russian government are also treated as our related parties for the purpose of our consolidated financial statements.

As a part of our ordinary business activities, we enter into various transactions with state-controlled entities and governmental bodies. The majority of related party transactions are with Russian Railways and its subsidiaries, including TransCreditBank, which are also state-controlled. The most significant transactions are described below.

### Relationships with Russian Railways and its subsidiaries

We engage in a variety of transactions with Russian Railways, which is the owner of Russian rail infrastructure for common use and the provider of locomotive services in Russia. Furthermore, Russian Railways owns the vast majority of railcar repair facilities in Russia, which we use to maintain our rolling stock.

In addition, under the provisions of the existing Russian regulations, certain functions associated with the arrangement of container transportation processes can only be performed by Russian Railways. Pursuant to the arrangements made at the time of the transfer of 47 terminals from Russian Railways to us, Russian Railways engaged us to act as its agent in the performance of these functions. Revenue generated by us from such transactions with Russian Railways is reported as agency fees in the consolidated statement of comprehensive income.

### Relationships with TransCreditBank

We maintain several bank accounts with TransCreditBank. In addition, TransCreditBank has guaranteed the promissory notes of LLC Finans-Proekt, acquired by us.

TKB Capital (CJSC), a subsidiary of TransCreditBank, is also a Co-Bookrunner in the Offering. See “*Plan of Distribution*”.

As of 30 June 2010 and 31 December 2009, we had the following significant balances with related parties, as well as transactions for the six-month periods ended 30 June 2010 and 2009:

	<u>30 June 2010</u>	<u>31 December 2009</u>
	(in millions of RUR)	
Cash and cash equivalents . . . . .	594	429
Trade and other receivables		
Trade receivables . . . . .	1,183	321
Other receivables . . . . .	<u>41</u>	<u>7</u>
	1,224	328
Prepayments and other current assets		
Advances to suppliers . . . . .	718	1,128
Prepaid income tax . . . . .	59	98
VAT receivable . . . . .	<u>891</u>	<u>681</u>
	1,668	1,907
Short-term investments . . . . .	—	55
Long-term investments . . . . .	<u>197</u>	<u>197</u>
<b>Total assets</b> . . . . .	<b><u>3,683</u></b>	<b><u>2,916</u></b>
Trade and other accounts payable		
Trade payables . . . . .	306	106
Liabilities to customers . . . . .	<u>36</u>	<u>39</u>
	342	145
Accrued and other liabilities		
Other payables . . . . .	38	132
Income taxes payable . . . . .	46	76
Taxes other than income tax payable . . . . .	232	170
Finance lease obligations . . . . .	<u>865</u>	<u>973</u>
<b>Total liabilities</b> . . . . .	<b><u>1,523</u></b>	<b><u>1,496</u></b>
	<u>30 June 2010</u>	<u>30 June 2009</u>
	(in millions of RUR)	
Revenue		
Rail-based container shipping services . . . . .	397	346
Agency fees . . . . .	740	634
Other services . . . . .	<u>53</u>	<u>104</u>
	1,190	1,084
Interest income on short-term investments . . . . .	—	5
Interest income on deposits . . . . .	<u>7</u>	<u>27</u>
<b>Total income</b> . . . . .	<b><u>1,197</u></b>	<b><u>1,116</u></b>
Operating expenses		
Freight and transportation services . . . . .	1,517	1,337
Third-party charges relating to integrated logistics services . . . . .	2,011	1,034
Repair services . . . . .	406	351
Taxes other than income tax . . . . .	208	210
Rent of property and equipment . . . . .	162	68
Other expenses . . . . .	<u>125</u>	<u>114</u>
	4,429	3,114
Income tax . . . . .	118	65
Income tax expense on bank loans . . . . .	—	54
Interest expense on finance lease obligations . . . . .	<u>75</u>	<u>93</u>
<b>Total expenses</b> . . . . .	<b><u>4,622</u></b>	<b><u>3,326</u></b>
Acquisition of property, plant and equipment . . . . .	458	66
Purchase of materials . . . . .	4	3
Contribution to non-state pension funds . . . . .	<u>26</u>	<u>23</u>
<b>Total other transactions</b> . . . . .	<b><u>488</u></b>	<b><u>92</u></b>

### **Compensation of key management personnel**

Key management personnel consist of members of the Board of Directors, the CEO and his deputies, totalling 15 as of 30 June 2010 and 14 persons as of 30 June 2009. Total gross compensation (including unified social tax and before withholding of personal income tax) to key management personnel amounted to RUR 46 million (including unified social tax of RUR 1 million) and RUR 25 million (including unified social tax of RUR 1 million) for the six months periods ended 30 June 2010 and 2009, respectively. Such compensation is included in payroll and related charges in the consolidated comprehensive income statement and comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

### **MATERIAL CONTRACTS**

We believe that we have not entered into any material contracts (not being contracts entered into in the ordinary course of business), during the one year prior to the date of this Prospectus, other than the Underwriting Agreement referred to in "*Plan of Distribution*", the Deposit Agreement referred to in "*Terms and Conditions of the Global Depositary Receipts*" or any other agreement as discussed elsewhere in the Prospectus or the Consolidated Financial Statements.

## REGULATION OF RAILWAY TRANSPORTATION IN RUSSIA

Set out below are certain key provisions of Russian law relating to railway transportation and forwarding services, and certain other laws and regulations generally applicable to the Company including antimonopoly, land-use, environmental and employment matters. However, this description is not comprehensive and is qualified in its entirety by reference to applicable Russian law.

### APPLICABLE LEGISLATION

The regulation of railway transportation in Russia is primarily based on the following laws and regulations.

#### Railway industry specific laws and regulations

- Federal Law “On Railway Transport in the Russian Federation” No. 17-FZ dated 10 January 2003, as amended (the “**Railway Transport Law**”):

The Railway Transport Law establishes the legal basis for the functioning of railway transport and for the interaction between entities rendering railway transportation services and state authorities in the sphere of railway transportation.

- Federal Law “Charter of Railway Transport of the Russian Federation” No. 18-FZ dated 10 January 2003, as amended (the “**Railway Transport charter**”):

The Railway Transport Charter regulates relations between shippers, passengers, consignors, consignees, owners of railway transport infrastructure and other persons in the sphere of services rendered by organisations of railway transport infrastructure. The Railway Transport Charter defines the principal terms and conditions for the carriage of cargoes, passengers, luggage and freight luggage, provision of services by owners of the railway transport infrastructure and provision of relating to transportation services.

- Federal Law “On Management and Disposal of Railway Transport Property” No. 29-FZ dated 27 February 2003, as amended, and the Russian Government Regulation “On the Assets of Russian Railways, an Open Joint Stock Company, which Are Limited in Circulation” No. 57 dated 6 February 2004, as amended (the “**Regulation 57**”):

This law and Regulation 57 provide special rules and procedures for privatisation of railway transport property and management and disposal of that property. In particular, they set the rules for the disposal of Russian Railways’ assets including the shares of the Company.

- Federal Law “On Forwarding Services” No. 87-FZ dated 30 June 2003 (the “**Forwarding Law**”):

The Forwarding Law specifies the rules applicable to freight forwarding services and organisation of shipments. This law defines the rights and obligations of the parties to a freight forwarding contract, sets out liability triggers and provides for certain rules in relation to claims and the resolution of disputes arising out of a freight forwarding contract.

- Russian Government Regulation “On Approval of Forwarding Services Rules” No. 554 dated 8 September 2006 (the “**Forwarding Services Rules**”):

The Forwarding Services Rules set out the list of forwarding documents which constitute integral parts of contracts, the procedure for rendering forwarding services, and quality requirements for these services.

- The Reform Programme (as defined in “*Glossary of Certain General Terms and Abbreviations*”):

The key provisions of the Reform Programme are summarised below (see “— *Structural Reform and Development Strategy of Railway Transportation in Russia — The Reform Programme*”).

- 2030 Development & Strategy (as defined in “*Glossary of Certain General Terms and Abbreviations*”):

The key provisions of the 2030 Development Strategy are summarised below (see “— *Structural Reform and Development Strategy of Railway Transportation in Russia — Development Strategy*”).

- Russian Government Regulation “On State Regulation and Control of Tariffs, Fees and Duties in Relation to Works (Services) Provided by Natural Monopolies Entities on Rail Transport” No. 643, dated 5 August 2009:

This regulation determines: (a) the aims, principles and methods of the state regulation of tariffs for the services provided by Russian Railways as a natural monopoly; (b) the rules for determination of tariffs; and (c) supervision process over their determination and application.



- Russian Government Regulation “On Rules for Setting Exclusive Railway Transport Tariffs” No. 787 dated 15 December 2004, as amended (the “**Regulation of Exclusive Tariffs**”):

The Regulation of Exclusive Tariffs determines the procedure for setting exclusive railway transport tariffs, which may be used for provision on certain routes, or certain cargo types or types of rolling stock.

- Russian Federal Energy Commission Regulation “On Approval of the Price List No. 10-01 “Tariffs for Freight Transportation and Infrastructure Services Provided by Russian Railways” No. 47-t/5 dated 17 June 2003, as amended (the “**Tariff 10-01**”):

The key provisions of the Tariff 10-01 are summarised below (see “— *Regulation of Railway Tariffs*”).

- Russian Ministry of Railway Transport Instruction “On Works to Establish a Certification System; Rules of Certification of the Russian Federal Railway Transport. Main Provisions (P SSFZhT 01-96)” No. 166u dated 12 November 1996, as amended (the “**Railway Transport Certification Rules**”):

The key provisions of the Railway Transport Certification Rules are summarised below (see “— *Certification Requirements*”).

- Russian Government Regulation “On Approval of the Rules on Provision of Services on Railway Infrastructure of Common Use” No. 703 dated 20 November 2003, as amended, and the Ministry of Transportation Order “On Approval of Freight Transportation Rules for Trains Composed of Locomotives and Railcars Owned or Otherwise Held by Shippers, Cargo Consignees or Other Legal Entities or Individuals Other than Railway Carriers” No. 150 dated 22 October 2007 (the “**Freight Transportation Rules**”).

The Freight Transportation Rules regulate the procedure and terms of cargo railway transportation by trains formed of locomotives and cars which are not owned by the railway carrier and provide legal grounds for the use of the railway infrastructure by railway operators.

There are a number of other orders and decrees issued by the Ministry of Transportation of Russia, the Federal Agency for Railway Transport, Russian Railways and the Ministry of Railways which provide detailed regulation of the relationships between the carriers, dispatches, cargo consignees and Russian Railways and set out a contractual framework for such relationships.

### **International agreements**

- Agreement on International Railway Cargo Transportation dated 1 November 1951, as amended (“**SMGS**”).

Russia is a party to SMGS, which provides for a direct railway communication for transportation of cargoes among the railways of 22 countries of Europe and Asia. The main purpose of SMGS is to establish the same terms of transportation and a single set of transportation documents for all railways, participants of SMGS.

- Tariff Agreement of CIS Railway Administrations dated 17 February 2003, as amended (the “**Tariff Agreement**”).

The Tariff Agreement, which Russia joined in 1993, was adopted as an additional document to SMGS. It sets out a general procedure to adopt annually maximum freight tariff levels for international transit through the CIS territory and provides for certain additional rules, such as return of empty railcars to the country of origin free of charge. The Tariff Agreement regulates relations between CIS railway administrations (such as Russian Railways in Russia). Only railcars directly owned or otherwise operated by Russian Railways fall under this Tariff Agreement. For this reason, until April 2010, the Company’s flatcars were leased to Russian Railways when they were transported outside Russia. However, since April 2010 the Company’s flatcars have been designated as a private fleet also for the purposes of international carriage, they are no longer subject to the Tariff Agreement.

### **Other significant laws and regulations applicable to the Company**

- The Civil Code of the Russian Federation, as amended (the “**Civil Code**”):

The Civil Code, among other things, regulates property relations between commercial parties. In particular, the Civil Code establishes (i) the rules for obtaining and transferring ownership of movable and immovable property; (ii) the main rules for concluding, amending, performing and terminating contracts; and (iii) the material terms and conditions of a number of contracts (including, but not limited to, forwarding contracts, transportation (carriage) agreements, service agreements, lease agreements, loan and credit agreements).

- Federal Law “On Protection of Competition” No. 135-FZ dated 26 July 2006, as amended (the “**Competition Law**”):

The Competition Law sets forth provisions aimed at ensuring that market participants having a significant share of the relevant market, such as the Company, do not abuse their dominant position to hinder competition in their relevant markets. The summary of antimonopoly regulation is provided below under “— *Competition Law*”.

- Federal Law “On Licensing of Certain Activities” No. 128-FZ dated 8 August 2001, as amended (the “**Law on Licensing**”):

The Law on Licensing is discussed below under “— *Licensing*”.

- Federal Law “On Foreign Investments in Entities Having Strategic Significance for National Defence and Security” No. 57-FZ dated 29 April 2008 (the “**Foreign Strategic Investments Law**”):

The law provides for limitations and clearance procedure for foreign investors wishing to invest in Russian companies of strategic importance for national defence and security. Key provisions of the law are summarised below under “*Description of share capital and applicable Russian law — Strategic Entity*”.

#### **PRINCIPAL REGULATORY BODIES FOR THE RUSSIAN RAILWAY INDUSTRY**

The Russian government on behalf of the Russian Federation exercises all the powers of the sole shareholder of Russian Railways and appoints all members of its board of directors. In addition, Russian Railways is obligated to obtain a prior Russian government approval for the sale of shares in any of Russian Railways’ subsidiaries, including the Company.

At the federal level, regulatory authority over the Russian railway industry is primarily divided between several federal ministries:

- the Ministry of Transportation is responsible for the development of governmental policy and legal and regulatory standards in the transportation sector of the Russian economy;
- the Ministry of Economic Development approves: (i) strategic plans for social and economic development; (ii) the list and order of determination of the indexes of economical efficiency for federal state unitary enterprises and open joint-stock companies whose shares are owned by the Russian Federation; and (iii) opinions on drafts of the legal acts which regulate the relationships of business entities or their relationships with Russia and which also affect macroeconomic indicators in Russia; and
- the Ministry of Finance determines the taxation policy.

In Russia, in addition to the Ministries, various federal services are responsible for oversight of compliance with regulations and various federal agencies are responsible for management of state property and provision of state services. The federal services and agencies that regulate the Russian railway industry are as follows:

- the Federal Agency for Railway Transport implements government policies in the railway transportation sector of the Russian economy, monitors legal and regulatory standards, manages state property in the railway sector, maintains the registers of rolling stock and decides on suspension of freight transportation on certain routes, performs functions of the federal authority in the sphere of transportation of hazardous cargo by railway transport;
- the Federal Transport Supervision Service carries out licensing and governmental supervision of railway transport;
- the FTS determines and implements state regulation of tariffs and regulates the pricing of natural monopolies in Russia; and
- the FAS monitors and supervises compliance with the Competition Law.

The federal services and agencies listed above are directly involved in regulating and supervising the Russian railway industry. In addition, there are certain other government bodies have authority over various general issues relating to the Russian railway industry and otherwise relating to the Company’s business, including emergency procedures, customs, justice, tax and other matters.

Russian Railways has also certain regulatory functions in the Russian railway industry, which, among others, includes the following: it issues relevant permits, can prohibit the transportation of certain cargo in specific types of railway cars and sets forth procedures for submitting and receiving approvals of freight carriage applications.

## **STRUCTURAL REFORM AND DEVELOPMENT STRATEGY OF RAILWAY TRANSPORTATION IN RUSSIA**

### **The Reform Programme**

The reform of the railway transportation in Russia is carried out pursuant to the Reform Programme adopted by the Russian government in 2001. The Reform Programme is generally aimed at increasing the efficiency and stability of Russian railway transportation sector. The principal goals of the Reform Programme are improving the stability, safety and quality of railway transportation services, creating an effective integrated railway transportation system in Russia, reducing average railway freight transportation costs and meeting growing demand for railway transport services.

The Reform Programme has been implemented in three stages as summarised below. Currently, the first and second stages have been completed, while the third stage is currently being completed.

#### ***First stage: preparation for the Reform (2001 — 2003)***

During the first stage, a legal and regulatory framework was developed and adopted, external control mechanisms were created, and non-core facilities, including housing, social and public utility enterprises and regulatory and administrative functions for railway transport were separated and spun off. In October 2003, Russian Railways was formed.

#### ***Second stage: corporate build-up and encouragement of competition (2003 — 2005)***

Between 2003 and 2005, the Russian railway industry continued to undergo liberalisation of various railway transportation market segments and related sectors. In the freight transportation market segment, the Russian government's adoption of a new tariff pursuant to the Tariff 10-01 resulted in a significant increase in the number of railcars owned by private operators. Between 2003 and 2005, private railcar operators' fleet increased by approximately 84,000 railcars.

Russian Railways has also focused its efforts on improving efficiency and financial transparency. To this end, Russian Railways began to separate some of its business activities into branches in preparation for further separation of certain branches into independently-operated subsidiaries. As a result of these initiatives, 27 branches and subsidiaries were established to operate various businesses of Russian Railways, including the Company to operate rail container business. This process continued into the third stage of the Reform Programme. To improve its financial transparency, Russian Railways began to establish procedures for accounting revenues and expenses by business sectors.

Russian Railways' efforts during the first two stages of the Reform Programme resulted in an increase in volumes of freight transported by it (including its subsidiaries) and an improvement in the quality of transportation services provided in both freight and passenger transportation. In addition, private investment into the railway industry began to increase and railway safety began to improve.

#### ***Third stage: formation and development of a competitive market (2006 — present)***

Between 2006 and 2010, Russian Railways continued the process of creating a competitive environment in passenger and freight railway transportation and encouraging private investment into modernisation of railway-related assets (including rolling stock, locomotives and infrastructure). Russian Railways has continued to separate its business activities into independently-operated subsidiaries and started to sell shares in these subsidiaries to private investors. In 2008, in a pilot deal Russian Railways sold approximately a 15 percent minority interest in the Company through a private placement for approximately RUR 7.8 billion.

### **Development Strategy**

The goals of the Reform Programme were reiterated most recently on 17 June 2008, when the Russian government approved the 2030 Development Strategy. The 2030 Development Strategy provides a roadmap for implementing the remainder of the Reform Programme through 2030, and for modernising, improving and expanding the rail transportation industry in Russia, in order to further the country's social and economic development, to extend the Russian government's capacity for the protection of its national sovereignty and national security, to meet the transportation needs of its citizens, and to permit the acceleration of regional social and economic development.

The 2030 Development Strategy comprises the following two stages:

***Railway sector modernisation (2008-2015)***

This is the stage of fundamental modernisation of existing infrastructure objects, fleet and technology, as well as construction of new railway lines.

***Dynamic extension of railway system (2016-2030)***

This is the stage for the development of infrastructure and upgrade of technology in line with international standards and increasing global competitiveness of Russian railway transport.

**REGULATION OF RAILWAY TARIFFS**

The regulated railway tariffs generally apply only to the services provided by Russian Railways and affect our business in either of the following two ways: (a) such tariffs represent a charge for locomotive traction and rail infrastructure services which we pass through to our customers in an itemised contract or include in our through-rate tariff. Thus, these charges increase a cost of rail container transportation for our customers (See “*Business — Pricing Policy*”), or (b) we pay these Russian Railways’ charges for empty runs of our flatcars and containers (See “*Operating and Financial Review — Empty runs and empty run charges*”).

Pursuant to the Reform Programme and 2030 Development Strategy, the main objective of the tariff policy for the Russian railway industry is to stimulate development of free competition in railway services sector and to ensure non-discriminatory access to railway infrastructure for freight forwarders and operators. Tariffs should include a reasonable profit margin and cover expected investments in infrastructure maintenance and modernisation. Tariffs are indexed annually but occasionally may also be subject to supplemental indexation at the discretion of the FTS or the Russian Ministry of Transportation (for international transit tariffs), or as a response to a request from an authority or a market participant.

Generally, the tariffs which apply to the transportation related services provided by Russian Railways are established by FTS, except for international transit tariffs, which are agreed annually between the interested states and are fixed in international agreements. The Ministry of Transportation represents Russia in such negotiations. The freight tariff structure for the Russian railway sector is divided into two main parts: (a) a general infrastructure and locomotive charge and (b) a railcar or container charge. As Russian Railways does not currently have any containers or fitting flatcars, the charge used by Russian Railways regarding its railcars or containers does not serve as a benchmark for our operations.

The tariffs for carriage of freight, locomotive and infrastructure services rendered by Russian Railways are contained in the Tariff 10-01. The Tariff 10-01 differentiates three classes of freight tariffs with the lowest tariff applicable to Class 1 and the highest applicable to Class 3. For non-containerised freight, the railway tariff primarily depends on the distance, freight class and type of destination (i.e. whether the freight is being transported from Russia abroad by rail, or whether the freight is being transported within Russia, including transportation to/from the seaports). The same factors determine the railway tariff for containerised freight, except that freight transported in a container is always priced at the tariff applicable to Class 2 freight, irrespective of the freight class. The tariffs for transportation of empty flatcars are determined based on the tariffs applicable to flatcars transported to repair depots, which tends to be more expensive than tariffs applicable to loaded flatcars. Such tariffs are also established in accordance with the Tariff 10-01.

The railway tariff primarily depends on the distance, cargo class and type of destination (i.e. whether the freight is being transported from Russia abroad by rail, or whether the freight is being transported within Russia, including transportation to/from the seaports). The tariffs for carriage of cargoes and infrastructure services rendered by Russian Railways are contained in the Tariff 10-01. There are three classes of freight tariffs with the lowest tariff applicable to Class 1 and the highest applicable to Class 3.

The Russian government approves certain parameters for economic growth on a periodic basis, including annual tariff increases for services provided by natural monopolies, such as Russian Railways. In accordance with such approved parameters, in 2009, the FTS increased the tariffs for railway services by 5.7 percent effective from 1 July 2009. Since 1 January 2010, the FTS increased the tariffs for railway services by 9.4 percent. In accordance with the “Forecast of Social and Economic Development of Russia for 2011 and 2012-2013 Planning Period” programme prepared by MED, an increase in the rail tariffs of Russian Railways is not expected to exceed eight percent in 2011.

#### **FLATCAR AND CONTAINER SERVICES**

We act as a railcar operator and provide flatcars and containers for transportation of various type of freight, which is regulated by the Railway Transport Law.

Current legislation separates rolling stock operators from carriers. A railcar operator is a legal entity or an individual who owns rolling stock, provides such rolling stock to customers and enters into a contract with a carrier for the transportation of freight by rail. A carrier is a legal entity, which assumes an obligation to move freight from one point to another on the railway network and which has a relevant licence.

Rolling stock operators are also differentiated from the owners of infrastructure such as railway tracks and railway stations. Russian Railways currently owns most of the railway infrastructure and remains the leading railway carrier in Russia.

In addition to providing our flatcars and containers to customers, we facilitate the conclusion of transportation agreements between our customers and Russian Railways, acting as a freight forwarder. As a monopoly carrier, Russian Railways may not refuse to conclude carriage agreements with the customers of other railcar operators or prefer its own customers over those of other railcar operators.

We charge our customers for providing flatcars and containers to transport goods and Russian Railways receives charges for the use of infrastructure and the locomotive traction.

#### **CERTIFICATION REQUIREMENTS**

The Railway Transport Law requires the certification or declaration of compliance of flatcars and containers, and specialised equipment, which must comply with the safety requirements, including health and labour safety, fire safety and environmental protection rules. The Railway Transport Certification Rules specify particular types of rolling stock which must be certified. The certification is generally carried out by the manufacturers of the flatcars and containers. During the term of a certificate, inspection must be carried out at least once a year. The main function of these inspections is to identify rolling stock that does not comply with applicable legal requirements. Inspections are documented in an official act of inspection. If a breach of certification rules or legal requirements is determined to have occurred, the act will contain a decision of the inspection authorities as to whether to suspend or revoke the certificate. A decision to suspend, but not revoke, the certificate will be made if the holder of the certificate is able to cure the breach.

#### **FREIGHT FORWARDING SERVICES**

Freight forwarding services are regulated by the Civil Code, the Forwarding Law, the Forwarding Services Rules and the state standards adopted by Russian governmental authorities. In addition, the Russian Forwarders Association, a non-governmental organisation, has adopted non-binding general terms of forwarding.

Freight forwarding services include organisation of cargo transportation, facilitating the conclusion of the transportation agreements with carriers, preparing transport documentation such as waybills and certain other ancillary services. The Forwarding Law sets the liability of a freight forwarder for non-performance or undue performance of its obligations. This is limited in most cases to the actual damages resulting from such non-performance or undue performance. The law also provides for a shortened one-year limitation period for claims in relation to freight forwarding services. Prices for freight forwarding services are not regulated by the Russian government.

We have developed standard contracts for freight forwarding services for both internal transportation and for export-import freight forwarding services.

#### **REGULATION OF CONTAINER TERMINALS**

At the time of our incorporation, Russian Railways contributed 47 in-land container terminals to our share capital (one of which was divested). These container terminals have the status of "Sites for Common Use", which in particular means that the services provided at the Sites for Common Use must be provided on a non-discriminatory basis. Further, certain services provided at these terminals shall be provided by a natural monopoly, as a matter of Russian law. Therefore, we provide certain services such as loading and unloading containers and storage of containers for up to 5 days, on behalf of Russian Railways, which formally remains a provider of these services. Customers pay Russian Railways for such services and we receive agency fees from Russian Railways under our agency agreement with it. The agency fees which we receive are equal to the payments obtained by Russian Railways for such services.

Previously, the services such loading and unloading containers and storage of cargo for up to 5 days were tariff regulated and set by the FTS. However, in December 2009 we, as well as Russian Railways, received a formal clarification from the FTS that these terminal services are not subject to tariff regulation. Since then, Russian Railways has been determining the prices for these services. As Russian Railways has not yet developed a pricing policy for terminal services, it has been treating them the same as its regulated services, and in particular indexation of prices for these services in 2010 has been in line with Russian Railways' regulated tariffs.

Our newly constructed terminals do not automatically constitute Sites for Common Use and we can determine their status on a case by case basis. Not all of the services we provide at the Sites for Common Use are subject to prices established by Russian Railways. For example, no restrictions apply to such services as container preparation for loading and fitting of containers at platforms, however a share of services for which we determine the prices independently currently constitutes a relatively small share in the total revenues from terminal services.

#### **COMPETITION LAW**

Company's activities are subject to competition law regulation. Shortly after the Company's incorporation, Russian Railways contributed a large number of flatcars, containers and container terminals to the Company. Container terminals contributed to the Company are Sites for Common Use and most other market participants do not have such terminals. As in the opinion of the FAS, establishment of the Company and transfer of the relevant assets thereto could restrict competition in the rail container transportation and terminal services markets, the FAS imposed on the Company and Russian Railways certain restrictions and behavioural guidelines. In particular, the Company is obliged to:

- provide a non-discriminatory access to its containers and flatcars;
- allow a shipper to pay a part of the tariff relating to Russian Railways' infrastructure and locomotives services directly to Russian Railways without passing such portion of the tariff through the Company;
- provide a non-discriminatory access to the terminals which are recognised as Sites for Common Use and set prices for certain terminal services at the rates set for Russian Railways; and
- provide a free access to its terminals for shippers' trucks to bring and pick up third party containers.

In addition, the FAS included the Company in the FAS Register for (i) provision of flatcars for domestic railway transportation of containers for distances over 1,000 kilometres (under one transportation document, such as a way-bill) and (ii) provision of containers for domestic railway transportation. In both cases the FAS determined that the Company's share exceeds 50 percent of the relevant market. The FAS Register is a database of business entities (and their groups) which is used by the FAS to control such entities (and groups) to ensure their compliance with competition laws and regulations. Inclusion in the FAS Register imposes certain reporting obligations on the entities included in the FAS Register. Currently, such companies are required to provide the antimonopoly authorities with information on key performance results on an annual basis and upon request. Companies included in the FAS Register must also comply with stricter merger control rules and may become subject to more stringent antimonopoly regulation or be otherwise restricted in business operations by the FAS.

The fact of the inclusion in the FAS Register does not serve as an evidence of the companies being dominant in the respective market. However, under Russian law, the 35 percent (or even lesser) market share may be sufficient for a company to be recognised as dominant, and a share of over 50 percent of the market increases such risk. For this, there must be special FAS proceedings, which would result in a formal FAS decision stating that the company has a dominant position in a particular market. Such proceedings are typically started within a merger control process or where there is a suspicion of a violation of antitrust law. They can also be started by third parties. As the FAS Register is publicly available, competitors or customers of a company included in the FAS Register would know that the relevant company is on the FAS Register and might use this to the relevant company's detriment (e.g. by filing complaints with the FAS).

To date, the Company has already been included in the regional FAS Register in the Omsk region for providing terminal services, and is subject to closer scrutiny relating to the terminal services it provides in that region.

A dominant entity is subject to certain rules and prohibitions applicable to dominant companies only and may be penalised for using its dominant position. Russian law establishes severe sanctions for abuse of a dominant position by a company recognised as a dominant entity. A dominant company may be determined to have abused its dominant position if it sets monopoly high or low prices; suspends or reduces its provision of services if such suspension results in a price increase; refuses to enter into a contract with some persons; supports price or non-price discrimination; imposes disadvantageous contractual terms on a counterparty or requires it to purchase additional services in a bundle with the service a customer has requested. Any of the described actions or behaviours may be

regarded as an abuse of a dominant position if they result in restriction or elimination of competition, or infringement of third party interests.

If a company is determined to be a dominant entity which has abused its dominant position, the FAS may:

- issue a binding order requiring the company to remedy or mitigate the consequences of such actions, to amend abusive contractual terms or terminate any abusive contracts, to perform any actions aimed at maintaining market competition and to provide the FAS with any information regarding business activities of the company;
- impose fines on the company in the amount of up to 15 percent of the proceeds from the services performed (or goods sold), but not more than two percent of the gross proceeds from services performed (or goods sold) on a worldwide basis, or seize net income earned as a result of the abusive practices in case the aforementioned fine cannot be imposed;
- impose fines on the company officers in the amount of up to RUR 50,000 or prohibit them to hold management positions or practice certain activities for a period of up to three years;
- initiate criminal proceedings against the company's officers. Criminal penalties for violation of competition laws include imprisonment for up to six years with or without a fine in the amount of up to RUR 1,000,000 or a fine equal to the relevant officer's income earned over a five-year period with or without disqualification for a period of up to three years. If the court establishes that a particular officer used violence or threatened to use violence when breaching the competition laws, it may impose stricter sanctions such as an imprisonment for up to seven years with a disqualification for a period of up to three years. However, due to certain gaps in legislation and inability of antimonopoly authorities to provide sufficient evidence of such violations, these penalties have not yet been imposed in practice; and
- file a claim to the court to invalidate abusive contracts partially or in whole or acts of state authorities, to require reorganisation or liquidation of the company.

Russian competition law also includes a general prohibition for any entity, irrespective of whether it holds a dominant market position or not, to enter into an agreement or perform concerted actions in the market that result or may result in the prevention, restriction or elimination of market competition or infringement of interests of third parties. The sanctions for violation of these norms are generally similar to those for the abuse of a dominant market position.

To date, the FAS has opened 31 cases against the Company, trying to impose binding orders restricting its business activities or imposing fines for various alleged antimonopoly violations, including the refusal to provide a container or a flatcar and setting high prices for our services. The Company has successfully appealed 23 claims that have already been reviewed by the court or the FAS. However, 8 litigations purporting to challenge the fines imposed by the FAS are still pending, and a new claim could also be filed at any time.

For merger control provisions of the competition law, see *"Description of share capital and applicable Russian law — Anti-monopoly approvals of acquisitions"*.

## LICENSING

The Law on Licensing sets out the requirements for obtaining licences for certain activities. The list of licenses required for our operations has been recently reduced. We currently hold several licenses, and some are not required for our current operations. Our current licenses are: a licence for loading and unloading hazardous cargo on rail transport; a licence for the rail transportation of cargo without needing to enter into a separate agreement for freight transportation; a licence for the rail transportation of hazardous cargo; a licence for the collection, use, neutralisation, transportation and disposal of hazardous wastes; a licence for processing data classified as state secrets; a licence to operate explosive objects; and engaging in activities utilising ionising radiation. These licenses are subject to renewal every five years. Generally, we do not conduct many operations that require these licenses.

## ENVIRONMENTAL

The principal Russian law governing our environmental compliance is Federal Law "On Environmental Protection" No. 7-FZ dated 10 January 2002, as amended (the "**Environmental Protection Law**"). The Environmental Protection Law establishes what is colloquially known as a "pay-to-pollute" regime administered by the Federal Service for Ecological, Technological and Nuclear Supervision (the "**FSETNS**") and local authorities.

Under the "pay-to-pollute" regime, companies are required to obtain licences and permits authorising the discharge of pollutants into the air, water or soil. These licences and permits establish specific limits for permitted pollution.

Fees are assessed for both pollution within the agreed limits and for pollution in excess of these limits (the latter containing a penalty element). There are additional fines for certain other breaches of environmental regulations.

The Environmental Protection Law contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. The limitation period for claims for compensation for pollution is 20 years.

#### **HEALTH AND SAFETY**

The principal law regulating industrial safety is Federal Law “On Industrial Safety of Dangerous Industrial Facilities” No. 116-FZ dated 21 July 1997, as amended (the “**Safety Law**”). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where flammable materials or hazardous equipment such as lifting machines are used. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentrations, and extends to facilities and sites where these substances are used.

Our activities include the operation of certain hazardous industrial sites regulated by the FSETNS. Any construction, reconstruction, liquidation or other activities in relation to such regulated industrial sites are subject to a state industrial safety review. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law. Any company or individual violating industrial safety rules may incur administrative, criminal and/or civil liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be required to compensate individuals for lost earnings and health-related damages.

#### **EMPLOYMENT AND TRADE UNIONS**

The majority of the Company’s employees are members of one of the largest and influential industrial trade unions in Russia. Therefore, employment matters and regulation of trade unions may materially affect its business. Labour issues in Russia are primarily governed by the Labour Code of Russia No. 197-FZ dated 30 December 2001, as amended. In addition, the Rail Transport Law provides some additional regulation for workers of rail transport industry. In particular, the Rail Transport Law expressly prohibits work stoppages and strikes and declares them illegal.

The activities of trade unions are generally governed by Federal Law “On Trade Unions, Their Rights and Guarantees of Their Activity” No. 10-FZ dated 12 January 1996, as amended (the “**Trade Union Law**”). The Trade Union Law defines a trade union as a voluntary union of individuals with common production or professional interests connected with their business occupation that is incorporated for the purposes of representing and protecting the social and labour rights and interests of its members. As part of their activities, trade unions may, among other things: (i) negotiate collective contracts and agreements, such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities; (ii) monitor compliance with labour laws, collective contracts and other agreements; (iii) access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities; and (iv) represent their members and other employees in individual and collective labour disputes with management.

Russian law requires that companies co-operate with trade unions and do not interfere with their activities. If a trade union discovers a violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws.



## DESCRIPTION OF SHARE CAPITAL AND APPLICABLE RUSSIAN LAW

*Set forth below is a description of the Company's share capital, the material provisions of the Company's charter in effect as of the date of this Prospectus and certain requirements of Russian law applicable to the Company as an open joint stock company and the Company's shares. This description does not purport to be complete and is qualified in its entirety by reference to the Company's charter and applicable Russian law. Prospective investors may obtain a copy of the Company's charter upon request.*

### THE COMPANY'S PURPOSE

Article 3 of the Company's charter provides that the Company's main objective is to make profit. We are entitled to conduct any activities permissible under Russian law, including providing intermodal container transportation and integrated logistics transportation within Russia and internationally, providing freight forwarding services, repairing of containers and flatcars, construction, reconstruction and renovation of capital assets and other activities. We may engage in certain activities, a list of which is prescribed by law, only on the basis of a special permit or licence.

### DESCRIPTION OF SHARE CAPITAL

#### General

The Company was founded in the form of an open joint stock company on 4 March 2006 and began operations on 1 July 2006.

The Company's share capital is divided into shares with an equal nominal value of 1,000 RUR each, and the amount of the aggregate nominal value of all such shares constitutes the Company's share capital. The shareholders are not liable for the Company's obligations except as otherwise described below in "*— Liability of shareholders*". The shareholders bear liability for the Company's losses only to the extent of the value of the shares they own, including any unpaid contributions owed by them to the Company. The shareholders may freely sell and transfer their shares to third parties without triggering any rights of first refusal or requiring any approvals on the part of other shareholders. Russian Railways, however, must obtain approval from the Russian government to sell the Company's shares.

Pursuant to Russian law and the Company's charter, the Company has the right to issue ordinary shares, preferred shares and other securities permitted by Russian securities law.

The Company's share capital currently consists of 13,894,778 ordinary shares, each with a nominal value of RUR 1,000, all of which are fully paid, issued and outstanding. In addition, the Company's charter authorises it to issue a further 3,473,694 ordinary shares with a nominal value of RUR 1,000 each. No preferred shares are authorised or outstanding.

The Joint Stock Companies Law requires the Company to dispose of any of its own shares that it acquires within one year of their acquisition or, failing that, reduce the Company's share capital. Russian law does not allow for the voting of treasury shares. Currently, the Company does not have any treasury shares.

The Company's ordinary shares are listed on quotation list "I" of the RTS and on list "I" of the MICEX, in each case under the symbol TRCN. The Company applied for its GDRs to be listed on the Main Market of the London Stock Exchange under the symbol TRCN.

#### Rights of shareholders

As required by the Joint Stock Companies Law and the Company's charter, all of the Company's ordinary shares grant identical rights to each holder. Each fully paid ordinary share, except for certain circumstances expressly provided for by law (e.g. when a shareholder acquires shares in excess of certain threshold and is required to make a mandatory offer to purchase shares of other shareholders), gives its holder the right to:

- transfer such ordinary share freely without the consent of other shareholders;
- participate in the Company's management as provided by the Joint Stock Companies Law and the Company's charter;
- participate in the general shareholders' meeting with the right to vote on all matters within the shareholders' competence, including through a representative acting on the basis of a power of attorney;

- receive dividends in accordance with the Joint Stock Companies Law and the Company's charter if the general shareholders' meeting resolves to pay such dividends (always subject to the Board of Directors' recommendation);
- demand repurchase of all or some of the shares owned by such holder if the holder votes against or does not participate in voting on the decision of the shareholders meeting approving any of the following:
  - any reorganisation;
  - entering into a major transaction, as defined by the Joint Stock Companies Law; and
  - amendment of the Company's charter or approval of a new addition to the Company's charter that limit shareholder's rights;
- exercise statutory pre-emption rights to acquire our ordinary shares in accordance with applicable Russian law;
- have access to certain of the Company's documents, receive copies for a reasonable fee and, if holding alone or with other shareholders 25 percent or more of the voting shares, have free access to accounting documents;
- if holding, solely or jointly with other shareholders, not less than one percent of the Company's outstanding ordinary shares, obtain a list of persons entitled to participate in the general shareholders' meeting, obtain information on the Company's shareholders' register from the registrar;
- if holding, solely or jointly with other shareholders, not less than two percent of the Company's voting shares, may, not later than 30 days after the end of the relevant financial year, propose matters for the agenda of the annual shareholders' meeting and nominate candidates to the Board of Directors, the review commission, the ballot committee and a candidate for CEO;
- if holding, solely or jointly with other shareholders, not less than ten percent of the Company's voting shares, demand that the Board of Directors call an extraordinary general meeting of shareholders or an unscheduled review by the review commission;
- upon the Company's liquidation, receive a proportionate amount of the Company's property after the Company's liabilities are discharged; and
- exercise other rights of a shareholder provided by the Company's charter, under Russian law or by decisions of a general shareholder's meeting.

### **Pre-emption rights**

The Joint Stock Companies Law and the Company's charter grant existing shareholders a pre-emption right to purchase, pro rata to their existing shareholdings, any shares of the same class, or securities convertible into such shares, that are proposed for placement in an open subscription. Shareholders who voted against or did not participate in voting on the placement of shares or securities convertible into such shares in a closed subscription also have a pre-emption right to acquire such shares or securities pro rata to their shareholdings in the relevant class of securities. This rule does not apply when the shares and securities convertible into shares are placed through a closed subscription solely among existing shareholders if all existing shareholders are entitled to acquire new shares and securities convertible into shares in an amount that is proportionate to their existing shareholdings of the relevant class of securities.

Shareholders may exercise their pre-emption rights within the period of not less than 45 days from the date of the notice of their pre-emption right. However, if the offer price of the shares, or the securities convertible into shares, in each case in an open subscription, is to be determined only after the end of the period during which the shareholders may exercise their pre-emption rights, the Company must provide shareholders with 20 days written notice of the proposed offering, during which time the shareholders may exercise their pre-emption rights by sending a relevant notice. Once the offer price has been determined and disclosed, shareholders may pay for their new shares within a period set by us, which must not be less than five business days.

### **Anti-takeover protection and share acquisition above certain thresholds**

Pursuant to the Joint Stock Companies Law, a person intending to purchase more than 30 percent of the total number of the ordinary shares and preferred shares (provided that such shares carry voting rights) in an open joint stock company (taking into account shares already held by it and its affiliates) has the right to make a voluntary public offer to all the shareholders. The public offer shall be provided to the FSFM prior to or where it is allowed on the same day as, submission to the company for distribution to all shareholders.

Within 35 days after acquisition by any means of more than 30 percent of shares with voting rights in a open joint stock company, the purchaser must make a public offer to purchase the remaining shares with voting rights and securities convertible into such shares with voting rights, from the holders of such securities in the form of a mandatory public offer. The obligation to make a mandatory public offer also arises for a shareholder who has acquired shares with voting rights and, as a result of such acquisition, the number of the shares with voting rights held by it and its affiliates has passed the threshold of 50 percent or 75 percent of a company's shares with voting rights. In each case the FSFM must be notified of the public offer. The price of the securities to be specified in the mandatory public offer may not be lower than (i) the average trading price of the securities over the six month period immediately preceding the date on which the FSFM is notified of the mandatory public offer (if the securities are admitted to trading on a stock exchange) or their market value determined by an independent appraiser (if the securities are not publicly traded or the securities are publicly traded for a period less than six months), or (ii) the maximum price for which the shareholder who has made the mandatory public offer (or its affiliates) has acquired or agreed to acquire such securities over the six months immediately preceding the date on which the mandatory public offer is made. The purchaser's payment obligations under voluntary and mandatory offers are required to be secured by an irrevocable bank guarantee.

At any time after a company receives a voluntary or a mandatory public offer, and up to 25 days prior to the expiration of the relevant acceptance period, any person has the right to make a competing public offer (that satisfies the requirements for voluntary or mandatory public offers, as the case may be) to purchase a number of shares, and at a price, that is greater than or equal to that of the original offer. Any shareholder may revoke its previous acceptance of the original offer and accept the competing offer. A copy of the competing offer must be sent to the person who made the original offer so that such person may amend their offer by increasing the purchase price and/or shortening the settlement period.

Voluntary and mandatory public offers to acquire shares must contain information provided by the Joint Stock Companies Law and must be sent through the company whose shares are to be acquired. An offer is deemed to have been made to all shareholders as of the time at which the offer is received by the company. According to the Joint Stock Companies Law, a public offer must be accompanied by an irrevocable bank guarantee securing the obligation of the offeror to purchase all of the shares held by other shareholders. The guarantor's details and the bank guarantee terms must be specified in the offer sent to the company. The bank guarantee must be effective for at least six months after the expiry of the relevant acceptance period.

According to the Joint Stock Companies Law, a person intending to make an offer must send such offer to the FSFM which has the power to issue an order to bring the offer into compliance with the requirements set forth in the Joint Stock Companies Law. In the event that the offeror proposes to acquire securities that are traded on a stock exchange, the offer must be sent to the FSFM 15 days prior to its delivery to the company subject to the offer. If the securities to be acquired are not traded on a stock exchange, the offer must be sent to the FSFM on or before the date of its delivery to the company which shares are to be acquired.

The board of directors of a company that receives an offer must make a recommendation with respect to such offer within 15 days after receipt of the offer. The board of directors' recommendation shall include an opinion on the share price offered in a public offer and the potential change in such price after the acquisition of shares is completed as well as an opinion on the offeror's plans in relation to the company and its employees. The company must send the public offer, together with the board of directors' recommendation, to all shareholders.

The Joint Stock Companies Law provides that, during the acceptance period, the offeror may not acquire securities with respect to which it has made the public offer on terms other than the terms specified in the public offer. The acceptance period is determined by the offeror, subject to certain limitations set forth in the Joint Stock Companies Law. The acceptance period may not be less than 70 days or more than 90 days (in the case of voluntary public offers) or 80 days (in the case of mandatory public offers) from the date on which the public offer was received by the company. The holders of the securities to be acquired may accept the offer by sending the offeror an application to sell their securities by mail or by any other means provided for in the offer.

When a company receives an offer, decisions on certain important corporate issues, such as the placement of additional securities; the approval of a transaction or a series of related transactions involving assets with a value exceeding ten percent of the company's balance sheet assets as of the date of the company's most recent financial statements; the approval of interested party transactions; and other issues specified in the Joint Stock Companies Law shall be adopted only by a general meeting of the shareholders of the company. The competence of the general meeting of the shareholders is therefore extended as a result of a company receiving an offer.

If, as a result of either a voluntary or a mandatory public offer, the purchaser, solely or jointly together with its affiliates, purchases more than 95 percent of the shares with voting rights, it will be obliged to (i) notify all the other

holders of the securities (within 35 days after the acquisition of shares with voting rights above such threshold) of their right to sell their securities, and (ii) purchase the securities of each minority security holder upon request. Such notification should be accompanied by an irrevocable bank guarantee. A purchaser also has the right to buy out the shares of minority shareholders, provided that it has purchased not less than ten percent of the shares in the course of either the voluntary or the mandatory public offer. The buy-out offer or notice must be filed with the FSFM prior to their submission to the company.

### **Dividends and Dividend Rights**

The Joint Stock Companies Law and the Company's charter set forth the procedure for determining the dividends that we can distribute to our shareholders. According to the Company's charter, dividends may be paid based on the result of the first quarter, six or nine months and annual results, in each case to be decided at a general meeting of shareholders based on the Board of Directors' recommendation. A majority vote of the Board of Directors must recommend that dividends be paid and such recommendation then must be approved by a majority vote at a general meeting of shareholders. The amount of the dividend approved at the shareholders' meeting may not be more than the amount recommended by the Board of Directors. When making recommendations about payment, and when the Company pays dividends, it is required to follow the limitations established by the Joint Stock Companies Law. The Company is required to pay dividends within the time period, which is indicated in the shareholders' resolution approving the dividends, which may not be more than 60 days from the date of such resolution. For the purpose of compiling the list of shareholders entitled to receive dividends, a nominee shareholder should provide the Company with information about the persons in whose interest such nominee shareholder holds the shares.

The paid dividends are subject to taxation. See "*Taxation*".

Under the Joint Stock Companies Law, dividends may only be paid to shareholders out of net profits calculated under RAS. The Joint Stock Companies Law allows dividends to be declared if certain conditions, including the following, are met:

- the share capital has been paid in full;
- the value of net assets, less the proposed dividend payment, is not less than, and would remain following the payment of dividends, not less than the sum of the Company's share capital, reserve fund and the difference between the liquidation value and the par value of issued and outstanding preferred shares, if any;
- all shares from shareholders who have exercised their right to demand repurchase of their shares by the Company have been repurchased;
- the company is not, and will not become as a result of the payment of dividends, insolvent; and
- in other cases provided by law.

Furthermore, the Company is prohibited from paying declared dividends under the Joint Stock Companies Law if any of the following events have occurred and are continuing:

- the Company is insolvent on the scheduled date of payment of such dividends or could become insolvent as a result of such payment; or
- the value of the Company's net assets, calculated in accordance with Russian accounting standards, is less, and would, as a result of the proposed dividend payment, become less, than the sum of the Company's share capital, the Company's reserve fund and the difference between the liquidation value and the par value of the Company's issued and outstanding preferred shares; and
- in other cases provided by law.

### **Remittance of dividends, interest or other payments to non-residents**

The Federal Law No. 160-FZ "On Foreign Investments in the Russian Federation" dated 9 July 1999, as amended, specifically guarantees foreign investors the right to repatriate their earnings from investments in Russia. Non-residents may receive dividends declared by Russian companies both in foreign currencies and Roubles. Dividends declared and paid in Roubles may be freely converted through Russian authorised banks and remitted outside of Russia.

### **Distributions to shareholders on liquidation**

Under Russian law, the liquidation of a company results in its ceasing to exist without the transfer of its rights and obligations to any person as its legal successor. The Joint Stock Companies Law allow a Company to be liquidated:

- by a three-quarters majority vote at a general meeting of shareholders; or
- by court order.

Following a decision to liquidate, the right to manage a Company's affairs would pass to a liquidation commission which, in the case of voluntary liquidation, is appointed by a three-quarters majority vote at a shareholders' meeting and, in the case of an involuntary liquidation, is appointed by the courts. A Company's creditors may file claims within a period to be determined by the liquidation commission, but which must be at least two months from the date of publication of the notice of liquidation by the liquidation commission.

The Civil Code gives creditors the following order of priority during liquidation:

- first priority — compensation to individuals for injuries or deaths, or moral damages;
- second priority — employees and copyright claims;
- third priority — federal and local governmental authorities claiming taxes and similar payments to budget and non-budgetary funds; and
- fourth priority — other creditors in accordance with Russian law.

Claims of creditors which are secured by a pledge of a company's property are satisfied from the sale proceeds of the pledged property prior to claims of any other creditors, save for the creditors of the first and second orders of priority, provided that claims of such creditors arose before the respective pledges have been entered into. Any residual claims made by secured creditors that remain unsatisfied after the sale of the pledged property rank *pari passu* with claims of the fourth-priority creditors.

The assets of a company which remain after creditors' claims have been fully satisfied are distributed among shareholders in the following order of priority:

- payments to repurchase shares from shareholders who have the right to demand repurchase of their shares by the company;
- payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares; and
- distribution of the remaining assets of a company between the holders of ordinary and preferred shares on a pro rata basis.

### **LIABILITY OF SHAREHOLDERS**

The Civil Code and the Joint Stock Companies Law generally provide that shareholders in a Russian joint stock company are not liable for the obligations of a joint stock company and only bear the risk of loss of their investments in a company's shares.

This may, however, not apply to companies or individuals who are capable of determining decisions and directing the business of a Russian joint stock company, if this is provided by the charter of such company or by an agreement between a company and the relevant shareholder. A company or individual capable of determining such decisions and directing the business of another company is called an "effective parent". The company whose decisions are capable of being determined or whose business is capable of being directed is called an "effective subsidiary".

If the effective subsidiary is a joint stock company, the effective parent bears joint and several liability for a transaction entered into by the effective subsidiary if (i) the effective parent caused the effective subsidiary to enter into the transaction by giving binding instructions to the effective subsidiary, and (ii) the ability of the effective parent to determine decisions made by the effective subsidiary is provided for by the charter of the subsidiary or in a contract between the parties.

An effective parent may be held secondarily liable for an effective subsidiary's debts in the event of its insolvency or bankruptcy. If the effective subsidiary is a joint stock company, the effective parent will have secondary liability if (i) the effective subsidiary becomes insolvent or bankrupt as a result of the actions of such effective parent; and (ii) such effective parent knew that such actions would result in the insolvency or bankruptcy of the effective subsidiary.

Shareholders (other than the effective parent) of an effective subsidiary that is a joint stock company may claim compensation for the effective subsidiary's losses from the effective parent if (i) the effective parent caused the effective subsidiary to do or refrain from doing any act that resulted in loss, and (ii) the effective parent knew that such act or omission would result in loss.

#### **SHAREHOLDERS AGREEMENTS**

In June 2009, the Joint Stock Companies Law was amended to expressly permit shareholders' agreements (the "SHA") in respect of Russian joint stock companies. Under the Joint Stock Companies Law, an SHA is an agreement on how to exercise the rights associated with shares and/or the rights to shares. The Joint Stock Companies Law provides that parties to the SHA may agree to assume the following obligations:

- to exercise the rights associated with shares in a particular way;
- to refrain from exercising their shareholders' rights;
- to vote in a way specified by the SHA or to coordinate voting;
- to acquire or dispose of shares at a pre-determined price and/or at the occurrence of a triggering event;
- not to sell shares until a triggering event occurs; or
- to act in an agreed way on other matters relating to the management, operations, reorganisation and/or liquidation of the company.

At the same time the Joint Stock Companies Law stipulates that parties to the SHA may not:

- assume an obligation to vote at the general shareholders' meeting, as directed by the board of directors, the management board or the sole executive body of the company; or
- agree to exercise rights or assume obligations only in relation to some but not all of the shares they own.

The SHA must be made as a single written document executed by the parties. Shareholders arrangements included in the SHA do not affect the rights of third parties, unless it is proven that the third party knew or ought to have known about any limitations imposed by the SHA. Breach of the SHA provisions in relation to voting arrangements at the general meeting of shareholders will not invalidate a decision otherwise properly taken in accordance with the requirements of Russian corporate law. Remedies available to the innocent party enforcing the SHA include damages, penalties and pre-determined compensation.

The Joint Stock Companies Law imposes an obligation on the company to keep records on the conclusion of SHAs as well as lists of the parties that have entered into SHAs. The company is also obliged to send this information to its shareholders prior to the annual general shareholders' meeting (but only in relation to SHAs concluded in the year prior to the annual general shareholders' meeting).

Provisions of the Joint Stock Companies Law in respect of SHA are very generic and have been largely untested. It remains to be seen how this new regulation is implemented and enforced in practice.

To the best of our knowledge, there are no SHAs among our shareholders. Certain shareholder protections and arrangements were included in the sale and purchase agreements entered into between Russian Railways, EBRD and other minority investors, at the time of private placement in 2007-2008. These arrangements, among other things, provided EBRD with veto rights on most significant decisions in the course of our business, which could otherwise be adopted by Russian Railways at its sole discretion. In accordance with the agreement between Russian Railways, EBRD and minority shareholders, special shareholder rights of EBRD and current minority shareholders will terminate at the time the Offering is completed.

#### **CHANGES IN THE SHARE CAPITAL**

##### **Share capital increase**

A company's share capital may be increased by:

- issuing new shares, or
- increasing the nominal value of the previously issued outstanding shares.

According to the Joint Stock Companies Law, a decision to increase our share capital by either method requires a majority vote at a shareholders' meeting. In addition, new shares may only be issued if there is a sufficient number of authorised but unissued shares provided for by a company's charter. The authorisation and issuance of shares in

excess of the number of authorised shares provided for by a company's charter requires a charter amendment, which must be approved by a three-quarters majority vote at a general meeting of shareholders.

The Federal Law No. 39-F2 "On the Securities Markets" dated 22 April 1996, as amended (the "**Securities Market Law**") and securities regulations set out detailed procedures for the registration and issue of shares of a joint stock company, including:

- the adoption of a decision on an increase of share capital by placement of additional shares;
- the adoption of a decision on a share issuance;
- the registration of a share issuance with the FSFM;
- the placement of the shares;
- the registration of the report or filing of the notification of the results of the share issuance; and
- public disclosure of information at the required stages of the issuance.

#### **Share capital decrease; share buy-backs**

The Company has the right and under certain circumstances is required by law, to reduce its share capital. The Joint Stock Companies Law does not allow a company to reduce its share capital below the statutory minimum level which for an open joint stock company is RUR 100,000. A company can decrease its share capital through a reduction of the number of shares either by repurchase and cancellation or through a reduction of the nominal value of the shares. A decision to reduce a Company's share capital through a reduction in the nominal value of shares has to be made by a three-quarters majority vote at a general shareholders' meeting and upon the proposal of such action by the board of directors. In all other cases, the decision to reduce a company's share capital may be taken by a majority vote of shareholders. Within three business days from adoption of a decision to reduce the share capital, a company must notify the tax authorities and publish two notices, one within 3 days of the date of a decision on reduction of the share capital, and the second 30 days after the publication of the first notice. The notices must be published on the webpage of the Federal Tax Service and in the periodical publication designated by applicable Russian regulations. A company's creditors would then have the right to demand, within 30 days of the latest publication, repayment of all amounts due to them, or, if repayment is not possible, termination of the relevant obligation, as well as compensation for damages. The statute of limitations for filing a suit is six months after the date of the last publication of the notice.

The Joint Stock Companies Law allows a company to decrease its share capital only if the following conditions have been met:

- the company's share capital has been paid up in full;
- the value of the company's net assets calculated under RAS, on the date of adoption or the decision to decrease the share capital is not less (and would not become less as a result of the proposed decrease of share capital) than the amount of the company's share capital, the reserve fund and the difference between the liquidation value and the nominal value of the company's issued and outstanding preferred shares, if any;
- the company has repurchased all shares from shareholders who have exercised their right to demand repurchase;
- the company is not insolvent on the date of adoption or the decision to decrease the share capital, and will not become, insolvent as a result of the proposed decrease of share capital;
- all declared, but unpaid dividends are paid in full; and
- in other cases provided by law.

Russian law provides that shareholders may demand repurchase of their shares if they voted against, or did not participate in, the voting on any of the following matters:

- reorganisation of the company;
- any amendment to the charter or approval of a new version of the charter which limits the rights of shareholders; or
- entering into a major transaction involving assets in excess of 50 percent of the balance sheet value of the assets of the company.

A company must repurchase the shares at the price stated by the board of directors, which shall not be less than the market value determined by an independent appraiser. A company may spend up to 10 percent of its net assets

calculated under RAS for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand repurchase exceeds 10 percent of the company's net assets, the company will repurchase shares from each such shareholder on a pro rata basis.

#### **REGISTRATION AND TRANSFER OF SHARES**

Russian law requires that a joint stock company maintain a register of its shareholders. A register of shareholders may be maintained by a company or by a specialised registrar. The Joint Stock Companies Law requires that a register of shareholders of a joint stock company with more than 50 shareholders be maintained by a specialised registrar. Ownership of registered shares is evidenced by entries made in such register. Shareholders may obtain extracts from such share register certifying the number of ordinary shares that they hold. Currently the Company's shareholder register is maintained by MCD. Following an ongoing legal dispute between MCD and the FSFM, MCD's licence to provide registry services was revoked effective 1 February 2011. On 20 October 2010, the Board of Directors resolved to terminate the contract with MCD effective from 24 December 2010 and to engage STATUS as the new registrar of the Company. In accordance with Russian law, the share register must be transferred from MCD to STATUS on 24 December 2010.

A shareholder may enter into an agreement with a licensed depository, under which a depository will be responsible for keeping records of transfers of rights over the deposited shares. Under Russian law, the execution of a deposit agreement does not entail transfer of the right of ownership over the deposited shares to a depository, and a depository may not carry out any operations with the deposited shares except under instruction of the shareholder. When shares are deposited with a depository, they are registered in a special "depo" account, and a depository is registered in the shareholders register as a nominee holder.

Purchases, sales or other transfers of ordinary shares are accomplished through registration in the share register or the registration of the transfer with a depository if ordinary shares are held through a depository. The registrars and depositaries are not allowed to require any documents other than those expressly provided for by law in order to register a transfer of ordinary shares in the register or with a depository. Any refusal by a registrar or a depository to register ordinary shares being transferred in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is unlawful and may be challenged in court. A company and the registrar bear joint liability for the maintenance of the company's share register.

#### **DISCLOSURE OF INFORMATION**

Russian securities regulations require the Company to make the following public disclosures and filings on a periodical basis:

- filing quarterly reports with the FSFM containing information about the Company, its shareholders, management bodies, members of the Board of Directors, branches and representative offices, ordinary shares, working capital, bank accounts and auditors, important developments during the reporting quarter and other information about the Company's financial and business activities and disclosing the same information on the Company's website on a same-time basis as required by applicable securities regulations;
- publishing on a newswire (Interfax) and on the Company's website, as well as in certain cases publishing in a periodical publication, any information concerning material facts and changes in the Company's financial and business activities, including among other things the Company's reorganisation, certain changes in the amount of the Company's assets, certain changes in ownership and shareholding as well as certain resolutions of the general shareholders' meeting and the Board of Directors;
- disclosing the Company's charter and by-laws;
- disclosing information on any of the following documents the Company has received:
  - a voluntary public offer (including any competing offer);
  - a mandatory public offer (including any competing offer);
  - a notice of the right of shareholders to sell their shares to the person that has acquired more than 95 percent of the Company's ordinary shares;
  - a request that minority shareholders sell their shares to the person that has acquired more than 95 percent of the Company's ordinary shares;
- disclosing information on various stages of the share issuance, registration and placement through publication of certain data, as required by applicable securities regulations;



- publishing the Company's annual report and annual financial statements prepared in accordance with RAS together with an audit opinion as well as the Company's annual and interim IFRS financial statements together with an audit opinion in cases required by applicable securities regulations;
- disclosing on a quarterly basis a list of the Company's affiliated persons on the Company's website and publishing in a newswire a notice about disclosure of the list of affiliated persons on the Company's website within one day after disclosure of the list on the Company's website; and
- disclosing other information, as required by applicable Russian securities law.

#### **CHANGE OF CONTROL**

We are currently unaware of any arrangement which could result in a change in control of the Company.

#### **RESERVE AND OTHER FUNDS**

Russian law requires each joint stock company to establish a reserve fund to be used to cover the company's losses, redeem the company's bonds and repurchase the company's shares if other funds are unavailable. Such reserve funds may not be used for any other purposes. According to the Joint Stock Companies Law and the Company's charter, the Company's reserve fund amounts to five percent of the Company's share capital. The Company is required to make annual allocations to the reserve fund in the amount of five percent of the Company's net profit calculated under RAS net profits until the required amount of the reserve fund is reached.

Russian law provides that a company may establish other funds to support the Company's business and economic activities.

#### **CORPORATE GOVERNANCE**

##### **Overview**

The Company's charter and other by-laws regulations set out various matters relating to the Company's corporate governance structure. The Company complies with corporate governance regime in Russia, including mandatory standards of the Joint Stock Companies Law, and securities regulations. In addition, over the last two years the Company has taken steps to improve its corporate governance practices to comply with the Russian Code of Corporate Behaviour approved by Order No. 421/p of the Federal Committee on Securities Markets (predecessor of the FSFM) dated 4 April 2002, in the form of a recommendation, which while not legally required, includes a set of recommendations for Russian companies on the best corporate governance standards.

The Company's governing bodies, which are responsible for the management of the Company include:

- the general meeting of shareholders;
- the Board of Directors; and
- the CEO.

Deputies of the CEO and certain other senior managers responsible for different spheres of the Company's business activities also play an important role in the development of the Company.

Members of the Board of Directors are responsible for defining the Company's strategy and setting its priorities, except for those matters that fall within the exclusive competence of the general shareholders' meeting. The CEO is responsible for the daily management of the Company's operations.

The Company's review commission is the internal control body responsible for monitoring the Company's operational and financial activities.

##### **General meeting of shareholders**

##### ***Authority***

The powers of the general meeting of shareholders are defined in the Joint Stock Companies Law and the Company's charter. A shareholders' meeting may not decide issues that are beyond the scope of its authority, as provided under the Joint Stock Companies Law. Issues that the shareholders have the exclusive power to decide are:

- amendments to the Company's charter and approval of a new version of the charter;
- reorganisation of the Company as provided for by law;

- liquidation of the Company, appointing a liquidation commission and approval of an interim balance sheet and the final liquidation balance sheets;
- determining the quantity, face value, class (type) of authorised shares and the rights conferred by such shares;
- increasing and decreasing the size of the Company's share capital;
- division and consolidation of shares;
- taking a decision on the placement of bonds convertible into shares or any other securities convertible into shares;
- electing members of the Board of Directors and terminating their powers prior to the expiration of their term;
- election of the Company's review commission and termination of its powers;
- adopting a resolution on transferring powers held by the CEO to a management organisation (manager);
- approval of the Company's auditor;
- approval of the Company's annual reports and annual accounting reporting, including the profit and loss statements (accounts of profits and losses), and also the distribution of the profit (including the payment (announcement) of the Company's dividends, save for the profits distributed as dividends as a result of the first quarter, six and nine months of the financial year) and the Company's losses according to the results of the financial year;
- payment of dividends based on the results of the first quarter, six and nine months of the financial year;
- setting a procedure to convene the general meeting of shareholders;
- approving "interested party transactions" and "major transactions", if they fall within the general meeting of shareholders' competence pursuant to the Joint Stock Companies Law;
- adopting decisions on participation in financial-industrial groups, associations and other unions of commercial organisations;
- approval of internal documents governing the operation of our bodies;
- making a decision on payment of remuneration and/or compensation to the members of the board of directors and review commission; and
- certain other issues provided for under the Joint Stock Companies Law.

Unless otherwise provided for by the Joint Stock Companies Law, the Company's CEO or the Board of Directors cannot decide on issues that fall within the competence of the general shareholders' meeting.

Voting at a general shareholders' meeting is typically based on the one vote per ordinary share principle, with the exception of the election of the board of directors, which is conducted through cumulative voting. Decisions are generally passed by a majority vote of the voting shares present at a general shareholders' meeting. However, Russian law requires a three-quarters majority vote of the voting shares present at a general shareholders' meeting to approve amendments to the charter, reorganisation or liquidation, appointment of the liquidation commission and approval of interim and final liquidation balances, major transactions with the value of over 50 percent of the balance sheet value of the company's assets and certain other issues.

### ***Notice and participation***

All shareholders entitled to participate in a general shareholders' meeting must be notified of the meeting, whether the meeting is to be held in person or by absentee ballot, no less than 30 days prior to the date of the meeting, and such notification shall specify the agenda for the meeting. However, if it is an extraordinary shareholders' meeting to elect the board of directors or to approve any reorganisation in the form of a merger, spin-off or demerger, shareholders must be notified at least 70 days prior to the date of the meeting. Only those items that are set out in the statutory notice sent to shareholders may be considered at a general shareholders' meeting.

The list of shareholders entitled to participate in a general shareholders' meeting is to be compiled according to the register of shareholders on the date specified by the board of directors. The date for the compilation of the list of shareholders entitled to participate in a general shareholders' meeting may not be earlier than the date of adopting the resolution to hold such general shareholders' meeting, and no more than 50 days before the date of the meeting. In the case of an extraordinary general shareholders' meeting to elect the board of directors, not more than 85 days before the date of the meeting.

Generally, the right to participate in a general shareholders' meeting may be exercised by a shareholder as follows:

- by personal attendance;
- by attendance of a duly authorised representative;
- by absentee ballot; or
- by delegating the right to fill out the absentee ballot to an authorised representative.

### **Board of Directors**

Pursuant to the Joint Stock Companies Law and the Company's charter, the Board of Directors must be elected at each annual general meeting of shareholders through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the board of directors. Such shareholder may cast all such votes for one candidate or distribute them among multiple candidates. A general meeting of shareholders may remove the whole Board of Directors by majority vote at any time without cause before the expiration of their term and elect a new Board of Directors. The Joint Stock Companies Law requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of ordinary shares. The Board of Directors now consists of nine members, including two independent directors. Only individuals may serve on the board of directors of an open joint stock company. See "*Directors and Senior Management*".

A meeting of the Board of Directors has a quorum if no less than a half of its members are present. Generally, a majority vote of the directors present at the meeting is required to adopt a decision. Certain decisions (e.g. approvals of major transactions) require the unanimous vote of all members of the board of directors or a majority vote of the disinterested and independent directors (in case of approving the interested party transactions).

Pursuant to Russian law and the Company's charter, the Board of Directors is responsible for the Company's general management, except for the adoption of decisions that fall within the exclusive competence of the general shareholders' meeting. In accordance with the Company's charter, the number of members of the board of directors is to be nine, with such members being determined by a decision of the general meeting of shareholders. The following issues are among those within the competence of the Board of Directors:

- setting out priority guidelines for our development;
- calling general and extraordinary meetings of shareholders (save for the cases when such right belongs to the shareholders or other persons/bodies) and determining the date of the meeting;
- approving the agenda of the general meeting of shareholders;
- electing the secretary of the general meeting of shareholders;
- specifying the record date for determining eligible shareholders to attend, as well as resolving other issues in relation to preparation of such meeting;
- making recommendations to the general meeting of the shareholders regarding the amount of any dividend to be declared, the procedure for its payment and proposing certain other issues for consideration of the general meeting of the shareholders (as provided for by the Company's charter);
- deciding an issue of bonds and other securities, except as otherwise is provided by Joint Stock Companies Law and the Company's charter, and approval of the documents in relation to securities as required by law;
- approving the decision of issue of shares, the prospectus of emission of shares and report on the results of placement of shares and report on the results of acquisition of the company's shares;
- determining the price (the monetary value) of the assets, offering price and redemption price of securities in cases provided for by Joint Stock Companies Law and the Company's charter;
- purchasing the Company's previously placed shares, bonds and other securities, in cases provided for in the Joint Stock Companies Law;
- selling the Company's shares acquired by it in the process of share redemption or purchase from the shareholders;
- electing the CEO and early termination of their powers;
- making recommendations to the general meeting of shareholders on the amount of remuneration and compensation of the review commission as well as the external auditor;

- approving the Company's by-law relating to the procedure for establishment and use of the Company's funds;
- making a decision on the use of the Company's funds, approval of cost sheets for the special purpose funds, and reviewing the results of implementing such cost sheets;
- approving the Company's by-laws, except for the by-laws which have to be approved by the general meeting of shareholders pursuant to the Joint Stock Companies Law and other by-laws which require the approval of the CEO under the Company's charter;
- approving the Company's annual budget, annual (quarterly) business plan, and the report on implementation of annual budget and business plan;
- establishing the Company's branches and opening representative offices or liquidation thereof;
- coordination of candidatures for the positions of heads of the Company's branches and representative offices;
- making decisions on obtaining and extending credits, guarantees, bails; concluding loan and pledge agreements, providing promissory and transfer notes, unless otherwise is provided by by-laws approved by the Board of Directors;
- making a decision of participation of the Company in other companies, approval of their statutory documents and candidates for the management bodies of newly established companies, save for associations of the companies; making a decision on a change of shareholding in such organisations, encumbrance of shares and termination of the Company's participation in other companies;
- taking decisions on entering into an agreement (or several connected agreements) in relation to the assets, works or services, with a value of between 5 percent and 25 percent of the Company's assets;
- approving "major transactions" and "interested party transactions" if they fall within the Board of Directors' competence pursuant to the Joint Stock Companies Law;
- approval of the Company's registrar, including the terms of the contract with the registrar and termination of such contract;
- appointing a corporate secretary;
- electing of the Chairman of the Board of Directors;
- preliminary approval of transactions for acquisition or disposal of fixed assets, which account for 10 to 25 percent of the book value of the Company's assets at the date of such transaction and preliminary approval of transactions with more than 10 percent of share capital of the Company's subsidiaries;
- appointing the Company's representatives to the highest management bodies of any organisation, in which the Company participates;
- approving of an independent appraiser to determine the value of shares, property or other Company's assets in cases provided for by the Joint Stock Companies Law and the Company's charter; and
- other issues, as provided by the Joint Stock Companies Law and the Company's charter.

## **CEO**

Pursuant to Russian law and the Company's charter, the Company's day-to-day activities are managed by the CEO, which is the Company's sole executive body. According to the Company's charter, the CEO is elected by the Board of Directors. The CEO reports to the Board of Directors and the general meeting of shareholders. The CEO's term in office is established by a contract with the CEO and is currently 3 years. The Board of Directors may, however, terminate the powers of the CEO at any time and elect a new CEO.

Mr. Peter Baskakov was appointed as the Company's CEO in March 2006. For his detailed biography see "*Directors and Senior Management*".

All of the Company's activities in the ordinary course of business are within the authority of the CEO, except for the matters which are subject to the approval of a general meeting of shareholders or the Board of Directors. The CEO arranges for the implementation of the resolutions of the general meeting of shareholders and the Board of Directors. Among other things, the CEO may:

- dispose of the Company's property in the ordinary course of business within the limits established by the Company's charter;

- issue powers of attorney;
- enter into the transactions on behalf of the Company, except for the cases specified under the Joint Stock Companies Law;
- execute the Company's financial documents;
- open and operate bank accounts;
- issue orders and instructions binding for all employees;
- approve the Company's staff schedule and the remuneration of employees; and
- perform any other management functions subject to limitations under the Joint Stock Companies Law, the Company's charter and the agreement with the CEO.

### **Review commission**

Pursuant to the Joint Stock Company Law and the Company's charter, the Company has a review commission (*revizionnaya komissia*). The review commission is a body which supervises the Company's financial and business activities. The review commission reports to the Company's shareholders. Its responsibilities, amongst others, include:

- control over the Company's financial and business activities;
- supervise the Company's financial and business activities, compliance with Russian law and the Company's charter;
- independent evaluation of the Company's financial performance.

Currently, the review commission consists of the following members:

- Ms. Ludmila Bulgakova;
- Mr. Sergey Davydov;
- Ms. Anna Chernyavskaya (Ignatova);
- Mr. Oleg Ivanov; and
- Ms. Natalia Lem.

### **TRANSACTIONS WHICH REQUIRE SPECIAL APPROVAL PURSUANT TO JOINT STOCK COMPANIES LAW**

#### **Interested party transactions**

The Joint Stock Companies Law contains requirements in respect of transactions with interested parties. An interested party is a member of the board of directors, a person performing functions of the sole executive body (e.g. the CEO), a member of the collective executive body or a shareholder, who owns, together with any of its affiliates, at least 20 percent of the Company's voting shares, or any person who has the rights to issue mandatory instructions to the Company. If any of the abovementioned persons and/or any of these persons' spouse, parents, children, adoptive parents or children, brothers or sisters or their affiliates:

- is a party to, or beneficiary of, a transaction with the Company, whether directly or as a representative or intermediary;
- owns, individually or collectively, at least 20 percent of the shares of a legal entity that is a party to, or beneficiary of, a transaction with the Company, whether directly or as a representative or intermediary; or
- holds offices in any of the Company's management bodies (or in any management body of the managing company of such company) that is a party to, or beneficiary of, a transaction with the Company, whether directly or as a representative or intermediary; and
- in other cases, provided by Russian law,

they will be considered an interested party.

The Joint Stock Companies Law requires that an interested party transaction by a company with more than 1,000 shareholders should be approved by a majority vote of the independent directors of the company (defined as those who are not interested in the transaction). For the purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision to approve the transaction was not, the CEO, a member of any

executive body or an affiliate of the company except for being its director, or a member of any management body of the company's management organisation or a person whose relatives held positions on management bodies of a company or the managing company or were sole manager of such company. For companies with 1,000 or fewer shareholders, an interested party transaction must be approved by a majority vote of the directors who are not interested in the transaction if the number of these directors is sufficient to constitute a quorum.

An interested party transaction must be approved by a decision of the majority of disinterested shareholders holding voting shares, if:

- the value of such a transaction, or series of related transactions, is two percent or more of the balance sheet value of the company's assets as at the last reporting date;
- the transaction, or series of interrelated transactions, involves the issuance by subscription or disposal of, ordinary shares in the amount exceeding two percent of the earlier issued existing ordinary shares or securities convertible into such shares;
- the transaction, or series of related transactions, involves the issuance by subscription of securities convertible into shares, which may be converted into ordinary shares, in the amount exceeding two percent of the earlier issued existing ordinary shares or ordinary shares into which the above-mentioned convertible securities may be converted;
- all members of the board of directors are interested parties, and/or none of them is an independent director; or
- the number of the disinterested directors is not sufficient to constitute a quorum.

The approval of interested party transactions of an open joint stock company is not required if:

- the company has only one shareholder that simultaneously performs the functions of the executive body of a company;
- all shareholders are interested in such transactions;
- the transactions arise from the shareholders executing their pre-emptive rights to purchase newly issued shares;
- the company is re-purchasing its issued shares;
- the company is merging with or into another company; or
- the company is required by the federal legislation to enter into the transaction, and settlements under such transactions are made pursuant to fixed tariffs and prices established by the competent state authorities.

Any interested party transaction must be approved prior to its execution. An interested party transaction entered into a breach of the above-mentioned rules may be invalidated by a court pursuant to an action of a company or any of its shareholders only if the other party to the transaction knew or should have known of its interested party nature and if the transaction resulted in losses to the Company or a shareholder. The interested party is liable to a company for any loss incurred by the company.

Currently, the Company enters into many interested party transactions approved by the Board of Directors or a general meeting of shareholders, as provided for by the Joint Stock Companies Law.

## **Major Transactions**

### ***General***

The Joint Stock Companies Law defines a "major transaction" as a transaction, or a series of transactions, involving the acquisition or disposal, or the possibility of disposal of property with a value of 25 percent or more of the balance sheet value of the assets of a company as determined under the RAS, with the exception of transactions conducted in the ordinary course of business or transactions involving the issuance of ordinary shares, or securities convertible into ordinary shares. Major transactions involving assets ranging from 25 percent to 50 percent of the book value of a company's assets, as determined according to its financial statements prepared under the RAS at the latest reporting date, require unanimous approval by all members of the board of directors or, if such approval is not obtained, a majority vote at a general shareholders' meeting. Major transactions involving assets in excess of 50 percent of the balance sheet value of assets require a three-quarter majority vote at a general shareholders' meeting.

Any major transaction entered into in breach of the above requirements may be invalidated by a court pursuant to an action of the company or any of our shareholders.

### ***Special cases requiring Board of Directors approval***

The Company's charter also provides a list of transactions which must be approved by the Board of Directors. Such additional transactions, among others, include: (i) any transaction in relation to the assets worth between 5 and 25 percent of the book value of the Company's assets, as determined under RAS, at the date of making a decision to conclude a transaction; (ii) any transaction in relation to fixed assets worth between 10 and 25 percent of the book value of the Company's fixed assets, as determined under RAS, at the date of making a decision to conclude a transaction; (iii) any transaction in relation to more than 10 percent of shares of the Company's subsidiary; (iv) transactions, which relate to providing/receiving assets and receivables without compensation, providing services free of charge or discharge of debt to or by the Company; (v) extending or obtaining loans, guarantees, concluding pledge agreements, issuing promissory notes or bills of exchange unless otherwise is provided by the Company's by-laws approved by the Board of Directors, and (vi) transactions relating to the disposal, or lease, of real property.

### **GOVERNMENT CONTROL OF SHARE TRANSFERS**

#### **Anti-monopoly approvals of acquisitions**

The following transactions with shares of a joint stock company require prior clearance with the FAS pursuant to the Competition Law:

- an acquisition by a person (or its group) of more than 25 percent of voting shares and the subsequent increase of the shareholding up to more than 50 percent and more than 75 percent of voting shares of a joint stock company;
- an acquisition by a person (or its group) of the core production assets (other than land plots of non-industrial use, buildings, structures, constructions, premises and parts thereof, objects of unfinished construction) and/or intangible assets of an entity if the balance sheet value of such assets exceeds 20 percent of the total balance sheet value of the core production and intangible assets of such entity; or
- obtaining rights to determine the conditions of business activity of an entity or to exercise the powers of its executive body by a person (or its group);

in each of the cases above, if any of the following conditions are met:

- if the aggregate asset value of an acquirer (and its group) together with a target (and its group) exceeds RUR 7 billion and at the same time the total asset value of the target (and its group) exceeds RUR 250 million;
- or the total annual revenues of such acquirer (and its group) and the target (and its group) for the preceding calendar year exceed RUR 10 billion and at the same time the total asset value of the target (and its group) exceeds RUR 250 million; or
- an acquirer, and/or a target, or any entity within the acquirer's group or a target's group are included in the FAS Register.
- mergers and consolidations of companies, if their aggregate asset value (the aggregate asset value of the groups of persons to which they belong) exceeds RUR 3 billion; or total annual revenues of such entities (groups of persons to which they belong) for the preceding calendar year exceed RUR 6 billion; or if one of these entities is included into the FAS Register; and
- foundation of a company, if its share capital is paid by the shares and/or the assets (except for cash) of another company or the newly founded entity acquires the shares and/or assets (except for cash), provided that the:
  - aggregate asset value of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly founded entity exceeds RUR 7 billion;
  - total annual revenues of the founders (group of persons to which they belong) and the entities (groups of persons to which they belong) which shares (participation interests) and/or assets are contributed to the share capital of the newly founded entity for the preceding calendar year exceed RUR 10 billion; or
  - the entity whose shares (participation interests) and/or assets (except for cash) are contributed to the share capital of the newly founded entity is included in the FAS Register.

The Competition Law establishes a 30-day review period for pre-closing approval of transactions. The review period may be extended for a further two months if the FAS believes the prospective transaction might restrict competition with respect to a particular market.

The Competition Law provides for a mandatory post-transactional notification (within 45 days of the closing) of the FAS in connection with acquisitions if the aggregate asset value or total annual revenues of an acquirer (and its group) and a target (and its group) for the preceding calendar year exceed RUR 400 million and at the same time the total asset value of the target (its group) exceeds RUR 60 million; and, with respect to consolidations, if their aggregate asset value or total annual revenues of the relevant companies for the preceding calendar year exceed RUR 400 million.

Under the Competition Law, if an acquirer has acted in violation of the merger control rules and acquired, for example, shares without obtaining the prior approval of the FAS, the transaction may be invalidated by a court resolution held upon the FAS claim, provided that such transaction has led or may lead to the restriction of competition, for example, by means of strengthening of a dominant position in the relevant market.

In addition, Russian law provides for civil, administrative and criminal liability for the breach of anti-monopoly law.

### **Strategic entity**

The Company holds a licence for activities in the area of ionising radiation use and generation thereof, which gives it the status of a Strategic Entity, one of strategic importance for the national defence and security. This makes it subject to the Foreign Strategic Investments Law.

The Foreign Strategic Investments Law establishes procedures for obtaining approval by foreign investors prior to purchasing (directly or indirectly) a blocking or controlling number of shares in a Strategic Entity. In particular, under this law, a foreign investor who proposes to purchase more than 50 percent of voting shares in a Strategic Entity, or to elect more than half of its board of directors or the management board, should obtain a clearance for such acquisition with a governmental commission. This process may be quite lengthy and take up to six months or longer. Further, where a foreign investor is or is controlled by a foreign government or an international organisation, the threshold requiring a clearance procedure is reduced to 25 percent of the voting shares or the right to block decisions of management bodies of a Strategic Entity, and such investor is restricted from purchasing more than 50 percent of voting shares in a Strategic Entity. In addition to the requirement for the prior clearance, the Foreign Strategic Investments Law requires that any acquisition of five percent or more of shares in a Strategic Entity be notified to the FAS within 45 days after the completion of the acquisition. Any such post-completion notification must be filed irrespective of whether a prior clearance under the Foreign Strategic Investments Law has been obtained.

Any transactions completed in breach of applicable requirements of the Foreign Strategic Investments Law are null and void and may therefore be unwound by Russian courts. Also, there are certain other consequences arising in case of any transactions being performed and completed in breach of the applicable Russian regulations.

### **Exchange/currency control**

Pursuant to the Federal Law No. 173-FZ “On Currency Regulation and Currency Control” dated 10 December 2003, as amended, (the “**Currency Law**”), and respective regulations of the CBR, currency operations with ordinary shares between residents and non-residents of Russia may be carried out without limitations, unless otherwise provided in the Currency Law and respective regulations of the CBR. Under the Currency Law, foreign currency payments between Russian residents and non-Russian residents that are not “regulated operations” are not restricted. The same applies to foreign currency payments that qualify as “regulated operations” but have not yet been restricted. The previous requirements that purchasers pay for ordinary shares in Roubles only was abolished from 1 January 2007. Currency operations with ordinary shares between non-residents may be conducted either in Roubles or in foreign currencies without limitations, subject to compliance with Russian securities and antimonopoly laws and regulations. In addition, from 1 January 2007 the power of the CBR to introduce requirements on the use of special accounts with authorised Russian banks in relation to operations set forth in the Currency Law was abolished.

### **Notification of foreign ownership**

A foreign person or company acquiring shares in a Russian joint stock company must, in certain circumstances, notify the FSFM of such acquisition no later than five days after such acquisition and in the form and substance required by Russian securities legislation.

Pursuant to Part 1 of the Tax Code, organisations that are taxpayers and individuals registered as individual entrepreneurs, in Russia who acquire shares in a Russian joint stock company must notify the Russian tax authorities within one month after such acquisition. Accordingly, foreign persons registered as individual entrepreneurs in Russia and foreign companies that acquire shares in a Russian joint stock company may need



to notify the Russian tax authorities within one month after such acquisition if they are already registered with the Russian tax authorities at the time of the acquisition. However, the notification procedure for a foreign company that is not yet registered with such tax authorities at the time of their acquisitions is unclear.

**Notification of acquisition of significant interest**

Pursuant to the Securities Market Law a shareholder who acquires shares in a Russian company must notify this company and the FSFM no later than 5 days after the acquisition by it of 5 percent or more of a company's ordinary shares, as well as after any subsequent change in the number of such shares so that the level of its holding of the company's ordinary shares passes the threshold of 5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, 50 percent or 75 percent, of the company's ordinary shares. Each notification must contain the name of the shareholder, the name of the company, the state registration number of the ordinary shares issuance and the number of the ordinary shares acquired. Such notifications must be generally given within five days after the ordinary shares have been transferred to the shareholder's securities account in the register of shareholders or after the acquisition of the right to cast votes attached to such ordinary shares, whether by virtue of an agreement or otherwise. Upon receipt of the notification from the shareholder, the company must publicly disclose the relevant information as provided by the Russian securities legislation.

## PLAN OF DISTRIBUTION

The Selling Shareholder is selling 4,654,749 Ordinary Shares in the form of ordinary shares and GDRs and an offering by Moore of 347,369 Ordinary Shares in the form of GDRs.

The Offering comprises an offering of the GDRs outside of the United States and Russia and of the Shares in the form of ordinary shares outside the United States, in reliance on Regulation S.

Under the terms of, and subject to, the conditions contained in the Underwriting Agreement dated 9 November 2010, the Managers named below have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Ordinary Shares indicated below. The Selling Shareholder and Moore have agreed to make available, at the Offer Price, to the Managers, the number of Ordinary Shares indicated below:

<u>Name</u>	<u>Number of ordinary shares</u>
J.P. Morgan Securities Ltd. . . . .	1,584,004
Morgan Stanley & Co. International plc. . . . .	1,584,004
CJSC “Investment Company “Troika Dialog”” and TD Investments Limited. . . . .	1,584,004
TKB Capital (CJSC). . . . .	250,106
<b>Total</b> . . . . .	<b>5,002,118</b>

In connection with the Offering, Russian Railways will pay all of the fees and commissions of the Managers and reimburse the Managers for certain costs and expenses. The Company will not bear any significant costs or expenses in connection with the Offering.

The obligations of the Managers under the Underwriting Agreement are subject to certain conditions that are customary for an agreement of this nature. These conditions include, among others, the accuracy of the representations and warranties under the Underwriting Agreement. The Joint Global Coordinators may terminate the Underwriting Agreement prior to a Closing Date (as defined in the Underwriting Agreement) in certain specified circumstances, including any breach of, or any event rendering untrue or incorrect, any of the representations and warranties contained in the Underwriting Agreement or any failure to perform any of the Company’s or the Selling Shareholder’s undertakings or agreements in the Underwriting Agreement, as well as certain changes in national or international monetary, financial, political, economic conditions or market conditions. If any of the above-mentioned conditions are not satisfied or waived by a Closing Date, or if the Underwriting Agreement is terminated prior to a Closing Date, then the Offering will lapse.

In the Underwriting Agreement, the Company and the Selling Shareholder have given certain representations and warranties to the Managers including in relation to our business, accounting records and compliance with applicable laws, in relation to the Securities and our conduct in connection with the Offering and in relation to the contents of the Prospectus.

The Company and the Selling Shareholders have agreed to indemnify the Managers for certain liabilities the Managers may incur in connection with the Offering. If these indemnities are unenforceable, the Company and the Selling Shareholders have agreed to contribute to any payments that the Managers are required to make in respect of the liabilities against which the Company and the Selling Shareholders have agreed to indemnify them.

The Company, the Selling Shareholder, Moore and EBRD, have agreed that they will not, and the Company, the Selling Shareholder, Moore and EBRD will procure that none of their respective subsidiaries (as defined in the Underwriting Agreement) will, subject to certain exceptions for a period, commencing on the date of execution of the Underwriting Agreement and ending on the date that is 180 days after the Closing Date: (i) issue, offer, sell, lend, mortgage, assign, contract to sell, pledge, charge, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any ordinary shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any ordinary shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options or depositary receipts representing the right to receive any such securities; or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Securities; or (iii) enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any such transaction.

The lock-up arrangement described above shall not apply to the Offering.

In connection with the Offering, the Stabilising Manager (or any agent or other person acting for the Stabilising Manager), may (but will be under no obligation to), to the extent permitted by applicable law, over-allot the GDRs or

effect other stabilisation transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail for a period of 30 days following the announcement of the Offer Price. However, there is no obligation on the Stabilising Manager or any agent of the Stabilising Manager, to do this. Such transactions may be effected on the London Stock Exchange and any other securities market, over-the-counter market, stock exchange or otherwise where GDRs can be traded. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end 30 days following the announcement of the Offer Price. Save as required by law, the Managers do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Offering. In no event will the Stabilising Manager over-allot in excess of 5 percent of the total number of GDRs being offered.

In connection with the Offering, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell Securities or related investments, for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

### **Certain relationships**

The Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking, commercial banking and other commercial dealings in the ordinary course of business with us and/or the Selling Shareholder. They have received customary fees and commissions for these transactions and services.

TCB Capital (CJSC), which is a Co-Bookrunner, is controlled by Russian Railways through TransCreditBank.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

*The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:*

The Global Depositary Receipts (“GDRs”) represented by this certificate are issued in respect of ordinary shares of nominal value RUB 1,000 each (the “Shares”) in JSC “TRANSCONTAINER” (the “Company”) pursuant to and subject to an agreement dated September 15, 2010, and made between the Company and BNY Mellon (Cyprus) Nominees Limited in its capacity as depositary (the “Depositary”) for the “Facility” (such agreement, as amended from time to time, being hereinafter referred to as the “Deposit Agreement”). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed VTB Bank OJSC as Custodian (the “Custodian”) to receive and hold on its behalf any relevant documentation respecting certain Shares (the “Deposited Shares”) and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the “Deposited Property”). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the “Conditions”), references to the “Depositary” are to BNY Mellon (Cyprus) Nominees Limited and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the “Custodian” are to VTB Bank OJSC or any other custodian from time to time appointed under the Deposit Agreement and references to the “Main Office” mean, in relation to the relevant Custodian, its head office in the city of Moscow or such other location of the head office of the Custodian in Russia as may be designated by the Custodian with the approval of the Depositary (if outside the city of Moscow) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

*The GDRs will upon issue be represented by interests in a Master GDR, evidencing GDRs, (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in “Summary of Provisions Relating to the GDRs while in Master Form” for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the holder in the Master GDR.*

References in these Conditions to the “Holder” of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the “Register”) as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the “Depositary” in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

### 1. Withdrawal of Deposited Property and Further Issues of GDRs

- 1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:
- (i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Russia of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;
  - (ii) the payment of such fees, taxes, duties, charges, costs, expenses and governmental charges as may be required under these Conditions or the Deposit Agreement; and
  - (iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

- (iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 3, Part B to the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), if Deposited Property is to be withdrawn or delivered during the Restricted Period (such term being defined as the 40 day period beginning on the latest of the commencement of the Offering, the original issue date of the GDRs, and the issue date with respect to the additional GDRs, if any, issued to cover over- allotments) in respect of surrendered GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

- (i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book- entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and
- (ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

- (a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(a) and (b) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or
- (b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Russia of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of Schedule 3, Part A of the Deposit Agreement (which is described in the following paragraph) (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8), by or on behalf of any investor who is to become the beneficial owner of the GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares represented by such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

*The certificate to be provided in the form of Schedule 3, Part A, of the Deposit Agreement certifies, among other things, that the person providing such certificate is located outside the United States and will comply with the restrictions on transfer set forth under “Selling and Transfer Restrictions — Transfer Restrictions”.*

1.5 Any further GDRs issued pursuant to Condition 1.4 which (i) represent Shares which have rights (whether dividend rights or otherwise) which are different from the rights attaching to the Shares represented by the outstanding GDRs, or (ii) are otherwise not fungible (or are to be treated as not fungible) with the outstanding GDRs, will be represented by a GDR certificate in definitive form or a separate temporary Master GDR. Upon

becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master GDR (by increasing the total number of GDRs evidenced by the Master GDR by the number of such further GDRs).

- 1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a “Pre-Release” as defined in Condition 1.7.
- 1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master GDR, as the case may be, prior to the receipt of Shares (a “**Pre-Release**”). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the “Pre-Releasee”) that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, and (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such GDRs or Deposited Property, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days’ notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than thirty per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limit for the purpose of general application. The Depositary will also set dollar limits with respect to Pre-Release transactions under the Conditions with any particular Pre-Releasee on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations in connection herewith, including the Pre-Releasee’s obligation to deliver Shares and/or other securities or GDRs upon termination of a Pre-Release transaction anticipated under the Conditions (and shall not, for the avoidance of doubt, constitute Deposited Property under the Conditions).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom any Pre-Release of GDRs or Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement (or as amended by the Depositary in accordance with Clause 3.10 of the Deposit Agreement and Condition 1.8).

- 1.8 The Depositary may make such amendments to the certificates contained in the Deposit Agreement in Schedule 3 Parts A and B as it may determine are required in order for the Depositary to perform its duties under the Deposit Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs may be listed or traded, or to comply with the rules or requirements of any book entry system by which the GDRs may be transferred, or to confirm compliance with any special limitations or restrictions to which any particular GDRs are subject.
- 1.9 Notwithstanding any other provisions of the Deposit Agreement or these Conditions, the Depositary may, with prior notice to the Company and the Holders, cancel a number of the GDRs then outstanding, sell (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) the Deposited Property formerly represented by such GDRs and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto, and thereby reduce the Depositary’s holdings of any class of Deposited Property below an amount that the Depositary determines to be necessary or advisable, if (i) the Depositary or its agent receives any notice from any Russian governmental or regulatory authority that the existence or operation of the Facility or the holding by the Depositary (or its Custodian or any of their respective nominees) of the Deposited Property violates any Russian law or regulation, or that the Depositary (or its Custodian or any of their respective nominees) is required to make any filing or obtain any consent, approval or license to operate the Facility or to own or exercise any rights with respect to the Deposited Shares or other Deposited Property (other than such filings, consents, approvals or licences which

the Depositary in its reasonable discretion considers to be of a routine administrative nature required in the ordinary course of business) or (ii) the Depositary or the Custodian receives advice from Russian counsel that the Depositary (or the Custodian or any of their respective nominees) reasonably could be subject to criminal, civil or administrative liabilities as a result of the existence or operation of the Facility or the holding or exercise by the Depositary (or the Custodian or any of their respective nominees) of any rights with respect to the Deposited Shares or other Deposited Property. If the Depositary cancels GDRs and sells Deposited Property under the preceding sentence, the Depositary shall allocate the cancelled GDRs converted under the preceding sentence and the net proceeds of the sale of the Deposited Property previously represented thereby, among the Holders pro-rata to their respective holdings of GDRs immediately prior to the cancellation, except that the allocations may be adjusted by the Depositary, in its sole discretion, so that no fraction of a cancelled GDR is allocated to any Holder. Any payment pursuant to this Condition 1.9 in connection with GDRs represented by a Master GDR shall be made according to the usual practice between the Depositary and the relevant settlement system. Any payment pursuant to this Condition 1.9 in connection with a GDR in definitive registered form shall be made to the relevant Holder only after surrender to the Depositary of the GDR certificate by such Holder for cancellation of the relevant number of GDRs. The Depositary shall also cancel GDRs and sell Deposited Property in accordance with this Condition 1.9 if the Depositary receives written instructions from the Company to do so and such cancellation and sale is necessary to enable the Company to comply with any applicable Russian laws.

- 1.10 Notwithstanding anything in the Deposit Agreement or these Conditions to the contrary, after the initial issuance of GDRs, the Depositary shall not accept for deposit any new Shares issued by the Company unless, or issue GDRs in respect of any new Shares otherwise than on a provisional basis represented by a temporary Master GDR until, as the case may be, the Depositary has received written notice from the Company that a Placement Report (Notification) in relation to such Shares has been registered or filed, as the case may be, with the FSFM, at which time the relevant temporary GDRs shall be automatically exchanged for GDRs represented by an existing Master GDR. Prior to receiving written notice from the Company as required by this Condition 1.10, notwithstanding any other terms of the Deposit Agreement or these Conditions, where new Shares are deposited into a temporary Facility subject to this Condition 1.10, the Depositary shall not permit such Shares to be withdrawn from the temporary Facility.

## **2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property**

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts representing Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system. Further, the Depositary may suspend the withdrawal of Deposited Property (i) during any period when either the Share Register or the Register is closed or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations or the delivery of Deposited Property is blocked by any applicable court order, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter as notified to the Depositary by the Company from time to time, or (iv) in the case where the Depositary has been informed by the Company that either a Placement Notice or a Placement Report has been prepared in respect of any new Shares represented by GDRs, then in relation to those new Shares, during any period prior to the Depositary being notified in writing that a valid Placement Notice has been duly and timely filed or the Placement Report has been registered with the FSFM in relation to those Shares. Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Facility, except upon the receipt and cancellation of GDRs, or as set out in Clause 3.9 of the Deposit Agreement. Notwithstanding the foregoing, each Holder and owner of GDRs acknowledges that, and each of the Depositary and the Custodian agrees that, during the Restricted Period, neither the Custodian nor the Depositary will make any actual delivery of Shares to any Holder or beneficial owner at an address within the United States.

The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Company may, following receipt from the relevant Russian authority or regulator of formal approval given in anticipation of a further issue of Shares and GDRs to increase the number of Shares that may be deposited in the Facility, instruct the Depositary to refuse to accept for deposit any Shares that would not have been permitted to be so deposited had such formal approval not been obtained, for a period ending no later than the relevant issue date of such further Shares and GDRs and the Depositary will refuse to accept such Shares

### **3. Transfer and Ownership**

The GDRs are in registered form. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder..

### **4. Cash Distributions**

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:

- (a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and
- (b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

### **5. Distributions of Shares**

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs represented by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

### **6. Distributions other than in Cash or Shares**

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far



as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

## **7. Rights Issues**

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

- (i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States dollars or Russian Roubles or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto, including by an increase in the numbers of GDRs represented by the Master GDR or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or
- (ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or
- (iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (i) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (ii) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.
- (iv)
  - (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the “**Primary GDR Rights Offering**”), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder’s GDRs (“**Additional GDR Rights**”) if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the “**Instruction Date**”) instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder’s instructions to subscribe for such Additional GDR Rights (“**Additional GDR Rights Requests**”) shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the “**Maximum Additional Subscription**”) and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto (“**Unsubscribed Rights**”), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in United States dollars or Russian Roubles or other relevant

currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

- (b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Rights Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated pro rata on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.
- (c) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Russian counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

## **8. Conversion of Foreign Currency**

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable convert or cause to be converted, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary may make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency without liability for interest for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion

and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

## **9. Distribution of any Payments**

- 9.1 Any distribution of cash under Conditions 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream or Euroclear, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relative Deposited Property.
- 9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

## **10. Capital Reorganisation**

Upon any sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

## **11. Withholding Taxes and Applicable Laws**

- 11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.
- 11.2 If any governmental or administrative authorisation, consent, registration or permit or any report or notification to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report or notification within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent practicable and permitted under applicable law, to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which (as notified to the Depositary by the Company) such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance (including provision of information) is reasonably requested by the Company and providing such assistance does not require the Depositary to take any action in conflict with market practice or any applicable laws or in a capacity other than its capacity as Depositary, at the expense of the Company, assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report or notification.

- 11.3 In performing its obligations under the Conditions, the Depositary shall comply, and shall use its reasonable endeavours to procure that the Custodian and each Agent shall comply, with all applicable laws and regulations of the United States, Russia and the United Kingdom (including applicable FSFM permits for placement and/or organisation of circulation of the Shares, including in the form of GDRs, outside Russia) binding on each of them respectively.

## **12. Voting Rights**

- 12.1 Holders will have voting rights with respect to the Deposited Shares subject to and in accordance with this Condition 12 and Clause 5 of the Deposit Agreement. The Company has agreed to notify the Depositary of any resolution to be proposed at a general shareholders meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against, or abstain from voting on, each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

- 12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.
- 12.3 Upon the timely receipt from a Holder of GDRs as of the record date of voting instructions in the manner specified by the Depositary, the Depositary shall, insofar as permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Shares and/or other Deposited Property, vote or cause the Custodian to vote the Shares and/or other Deposited Property, and will exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted for and a portion of the Deposited Shares will be voted against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received.
- 12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Russian law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Russian law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.
- 12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Deposited Shares in respect of which voting instructions have been received. If (i) no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by such Holder or because the voting instructions are incomplete, illegible or unclear or for any other reason) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, or (ii) voting instructions failed to specify the manner in which the Depositary is to vote with respect to any or all of such Deposited Shares, the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Russian law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.
- 12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the Chairman of the Company and appoint a person designated by him as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary is entitled to request the Company to

provide to the Depositary, and where such request has been made shall not be required to take any action required by this Condition 12 unless it shall have received, an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that such voting arrangement is valid and binding on Holders under Russian law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 but that in doing so the Depositary will not be deemed to be exercising voting discretion.

- 12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Russian law.
- 12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominees do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.
- 12.10 Notwithstanding any other term of this Condition 12 or Clause 5 of the Deposit Agreement, prior to the Depositary being notified in writing by the Company that a Placement Report (Notification) in respect of new Shares deposited into the Facility has been registered, or filed as the case may be, with the FSFM, the Depositary shall have no obligation to take any action pursuant to this Condition 12 or Clause 5 of the Deposit Agreement to procure the exercise of votes arising in relation to such Shares.

### **13. Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary**

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

### **14. Liability**

- 14.1 In acting under the Conditions the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.
- 14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, any Agent, or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).
- 14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be

- forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.
- 14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.
- 14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.
- 14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions. The Company shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Depositary of its obligations under or in connection with the Deposit Agreement or these Conditions.
- 14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.
- 14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.
- 14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.
- 14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof. If the Company incurs any liability to third parties occasioned by acts performed or omitted to be performed by the Depositary on the advice or opinion of, or any certificate or information obtained from, any legal counsel, valuer, accountant, banker, broker, securities company or other expert or in reliance on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof, and the Company requests cooperation from the Depositary and such cooperation does not require the Depositary to take any action which is in conflict with any applicable laws or to take any action which the Depositary believes in good faith is prejudicial to its interests, then the Depositary shall, at the expense of the Company, use reasonable endeavours to cooperate with the Company, provided that the Depositary shall not be responsible or liable for any loss or liability occasioned by its cooperation.
- 14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

- 14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.
- 14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.
- 14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate, and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company or to delegation to The Bank of New York Mellon. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not (in any circumstances) and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Company (save for in the case of delegation to The Bank of New York Mellon), pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof (and, where reasonably practicable, prior to such delegation, renewal, extension or termination, as the case may be), give notice thereof to the Company, save that no notice shall be required in the case of delegation to The Bank of New York Mellon. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary, save that no notice shall be required in the case of delegation to The Bank of New York Mellon. The Depositary may, in the performance of its obligations under the Conditions, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.
- 14.15 The Depositary may, in its sole discretion, transfer all or any of its rights and obligations under the Deposit Agreement or these Conditions by way of an assignment or novation to The Bank of New York Mellon, and the Company hereby consents thereto. Any such assignment or novation will become effective 30 days after receipt by the Company of written notice specifying the rights and/or obligations which The Bank of New York Mellon will assume pursuant to this Condition. Upon any such assignment or novation becoming effective, The Bank of New York Mellon will assume the rights and/or obligations specified in such notice as if it was originally a party to the Deposit Agreement. If any such notice to the Company shall specify a novation to The Bank of New York Mellon of the Depositary's rights and obligations under the GDRs, then upon such novation becoming effective, The Bank of New York Mellon shall be deemed to be named as Depositary in each GDR. Upon giving such notice to the Company, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.
- 14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.
- 14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its

performance or non-performance, or the exercise or attempted exercise of (or the failure to exercise any of) its powers or discretions, under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees. Without prejudice to the generality of the foregoing, in no circumstances shall the Depositary have any liability for any act or omission of any securities depository, clearing agency or settlement system in connection with or arising out of book-entry settlement of Deposited Shares or otherwise.

- 14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.
- 14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Russian law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.
- 14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

### **15. Issue and Delivery of Replacement GDRs and Exchange of GDRs**

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

### **16. Depositary's Fees, Costs and Expenses**

- 16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:
- (i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.\$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;
  - (ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;
  - (iii) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.\$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;
  - (iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.\$0.05 or less per GDR for each such dividend or distribution;
  - (v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.\$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;
  - (vi) a fee of U.S.\$0.05 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (h) below;
  - (vii) a fee of U.S. \$0.01 or less per GDR per annum, payable any year such fee is charged for local share registry inspection and related services by the Depositary or the Custodian or their respective agents, acting on a reasonable basis, upon consultation with the Company and subsequent prior notice to the Holders, and payable as provided in paragraph (h) below; and
  - (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other



Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

## **17. Agents**

17.1 The Depositary shall be entitled to appoint one or more agents (the “Agents”) for the purpose, inter alia, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

## **18. Listing**

The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Services Authority (the “Official List”) and admission to trading on the regulated market of the London Stock Exchange, and a listing for the Shares on the Russian Stock Exchanges.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the Financial Services Authority, the London Stock Exchange or the Russian Stock Exchanges in connection with such listings. In the event that the listing for the GDRs on the Official List, admission to trading on the regulated market of the London Stock Exchange, and listing of the Shares on at least one of the Russian Stock Exchanges is not maintained, the Company has undertaken in the Deposit Agreement to use its reasonable endeavours with the reasonable assistance of the Depositary (provided at the Company’s expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe

## **19. The Custodian**

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian’s resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian, which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. The Depositary in its discretion may appoint a substitute or additional custodian or custodians, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement. The Depositary shall notify Holders of such change in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

## **20. Resignation and Termination of Appointment of the Depositary**

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days’ prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as

Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably practicable following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23.

20.2 Upon the termination of the appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and shall hold the Deposited Property for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or these Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

## **21. Termination of Deposit Agreement**

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1(a)(i) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

## **22. Amendment of Deposit Agreement and Conditions**

22.1 Subject to Condition 22.3, all and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of 30 calendar days after such notice shall have been given. During such period of 30 calendar

days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

- 22.2 For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.
- 22.3 The Company and the Depositary may at any time by agreement in any form amend the number of Shares represented by each GDR, provided that each outstanding GDR represents the same number of Shares as each other outstanding GDR, and at least 30 calendar days notice of such amendment is given to the Holders, but in no circumstances shall any amendment pursuant to this Condition 22.3 be regarded as an amendment requiring 30 calendar days notice in accordance with Condition 22.1.

### **23. Notices**

- 23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.
- 23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that such facsimile transmission shall not subsequently be confirmed as aforesaid.

### **24. Reports and Information on the Company**

- 24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:
- (i) in respect of the financial year ending on December 31, 2009 and in respect of each financial year thereafter, the non-consolidated (and, if published for holders of Shares, consolidated) balance sheets as at the end of such financial year and the non-consolidated (and, if published for holders of Shares, consolidated) statements of income for such financial year in respect of the Company, prepared in accordance with the International Financial Reporting Standards (the "IFRS") and reported upon by independent public accountants selected by the Company, as soon as practicable (and in any event within 180 days) after the end of such year;
  - (ii) if the Company publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Company (prepared in accordance with the IFRS), as soon as practicable, after the same are published and in any event no later than three months after the end of the period to which they relate; and
  - (iii) if the Company publishes quarterly financial statements for holders of Shares, such quarterly financial statements of the Company (prepared in accordance with IFRS), as soon as practicable, after the same are published, and in any event no later than one month after the end of the period to which they relate.
- 24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

## **25. Copies of Company Notices**

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which in the Company's reasonable opinion contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

## **26. Moneys held by the Depositary**

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

## **27. Severability**

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

## **28. Governing Law**

- 28.1 The Deposit Agreement, the GDRs, and all non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedule 3 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has agreed in the Deposit Agreement that Disputes shall be resolved by arbitration, and the Company has submitted in respect of the Deed Poll and (in the event that the Depositary elects that Disputes shall be resolved by litigation) the Deposit Agreement to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City. The Company has also agreed in the Deed Poll to allow the Holders to elect that Disputes are resolved by arbitration.
- 28.2 The Company has irrevocably appointed Freshfields Bruckhaus Deringer, LLP with offices at 65 Fleet Street, London EC4Y 1HS, United Kingdom, as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed Freshfields Bruckhaus Deringer, LLP, with offices at 520 Madison Avenue 34th floor, New York NY, 10022, United States as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.3 The courts of England are to have jurisdiction to settle any disputes (each a "Dispute") which may arise out of or in connection with the GDRs (including any dispute relating to the existence, validity or termination of the GDRs, or any non-contractual obligation arising out of or in connection with the GDRs, or the consequences of the nullity of the GDRs), and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("Proceedings") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings

- in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
- 28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).
- 28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding, and shall not resist being joined to any such legal actions if the Depositary so requests.
- 28.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- 28.7 To the extent that the Company may in any jurisdiction claim for itself or its assets or revenue immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Company or its assets or revenue, the Company has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

## **29. Language**

The Deposit Agreement and the Deed Poll may be executed in the forms of an English language document and a document translated into the Russian language, but in the event of any inconsistency or conflict between the terms or interpretation of the English language form and the Russian language form, the terms and interpretation of the English language form shall prevail and shall be regarded as definitive.

## SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

The GDRs will initially be evidenced by a single Master Regulation S GDR in registered form. The Master Regulation S GDR will be deposited with The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depository (Nominees) Limited.

The Master Regulation S GDR contains provisions which apply to the GDRs while they are in master form, some of which modify the effect of the terms and conditions of the GDRs set forth under “Terms and Conditions of the Global Depository Receipts”. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the “*Terms and Conditions of the Global Depository Receipts*” shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described below in whole but not in part. The Depositary will irrevocably undertake in the Master GDR to deliver certificates evidencing GDRs in definitive registered form in exchange for the Master Regulation S GDR to the Holders within 60 calendar days in the event that:

- Euroclear or Clearstream, Luxembourg notifies the Company that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;
- Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 calendar days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 calendar days; or
- the Depositary has determined that, on the occasion of the next payment in respect of the Master GDR, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the Company’s expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear or Clearstream, Luxembourg. Upon any exchange of a Master GDR for certificates in definitive registered form, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master Regulation S GDR shall be reduced or increased (as the case may be) for all purposes by the number so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the Company’s obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the terms and conditions of the GDRs as set forth under “*Terms and Conditions of the Global Depository Receipts*” have terminated.

### PAYMENTS, DISTRIBUTIONS AND VOTING RIGHTS

Payments of cash dividends and other amounts (including cash distributions) will be made by the Depositary through Euroclear and Clearstream, Luxembourg on behalf of persons entitled thereto upon receipt of the relevant funds from the Company. Any free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the records maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the Master Regulation S GDR.

Holders will have voting rights as set forth under “*Terms and Conditions of the Global Depository Receipts*”.

### SURRENDER OF GDRS

Any requirement in the “*Terms and Conditions of the Global Depository Receipts*” relating to the surrender of a GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the

receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

**NOTICES**

For as long as the Master Regulation S GDR is registered in the name of a nominee for a common depositary holding on behalf of Euroclear and Clearstream, Luxembourg, notices to holders of GDRs may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23. See “*Terms and Conditions of the Global Depositary Receipts*”.

The Master Regulation S GDR shall be governed by and construed in accordance with English law.

## TAXATION

*Set forth below is a general description of certain Russian and UK tax considerations relating to the ordinary shares and GDRs. It does not purport to be a complete analysis of all tax considerations relating to the Shares or GDRs. Prospective investors in the Shares or GDRs should consult their tax advisors as to which countries' tax laws could be relevant upon acquiring, holding and disposing of the Shares or GDRs and receiving payments of dividends and the consequences of such actions under the tax laws of those countries. This summary is based upon the law, as in effect, on the date of the Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including, but not limited to, the legality of transactions involving the Shares or GDRs.*

### RUSSIAN TAX CONSIDERATIONS

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposal of ordinary shares and GDRs, as well as the taxation of dividend income. The summary is based on the laws of Russia in effect at the date of the Prospectus, which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief in respect of the Securities, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Securities. No representations with respect to the Russian tax consequences to any prospective investor are made herein.

The provisions of the Russian Tax Code applicable to investors, and transactions with the Securities are uncertain and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid, unpredictable change and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates *See "Risk Factors — Our business has a significant exposure to taxation in Russia"*.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a "Russian resident holder" means: (i) an individual holder of the Securities actually present in the Russian Federation for 183 days or more in 12 consecutive months (individual presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for the purpose of medical treatment or education); or (ii) a Russian legal entity; or (iii) a legal entity or an organisation, in each case organised under foreign law, that holds and disposes of the Securities through its permanent establishment in Russia.

For the purposes of this summary, a "non-resident holder" is a holder of the Securities which is not qualified to be a Russian resident holder defined in the previous paragraph.

Russian tax residency rules may be affected by an applicable double tax treaty. Moreover, Russian tax legislation in effect as at the date of this Prospectus does not contain a concept of corporate tax residency (rather, the Russian domestic legislation recognises the concept of a taxpayer). The Russian government, in its "Major Trends in Russian Tax Policy for 2008-2010", has proposed the introduction into domestic tax law of a concept of tax residency for legal entities. According to the proposals, a non-Russian entity would be deemed a Russian tax resident based on the place of its effective management and control and/or based on the residence of its shareholders.

### Non-resident investors

#### *Taxation of dividend income*

##### *Shares*

In general, payments of dividends by a Russian entity to a non-resident holder of the Shares that is a legal entity or organisation are subject to Russian withholding income tax at a rate of 15 percent (or, in respect of non-resident holders who are individuals, a withholding tax at a rate of 15 percent effective from the 1 January 2008), subject to reduction pursuant to the terms of an applicable double tax treaty between Russia and the country of the tax



residence of a respective non-resident holder (provided such double tax treaty is available) to the extent such non-resident holder is otherwise entitled to benefit from this double tax treaty and the corresponding tax treaty relief provided by such treaty.

Non-resident holders are able to obtain benefits under the relevant double tax treaty, provided that the Russian tax documentation requirements (annual advance confirmation of the non-resident holder's tax residency and, with respect to non-resident holders who are individuals, a confirmation of the income received and the taxes paid in the country of tax residence of such individuals as confirmed by the relevant tax authorities of such country) are satisfied. See "*— Russian tax treaty relief procedures*". However, procedures for advance treaty relief are not provided for by the current Russian law with respect to non-resident individual holders. Therefore, technically, for non-resident individual holders, a reduction of withholding income tax provided by a respective double tax treaty between Russia and the country of the tax residence of such non-resident individual holder could not be obtained. If a non-resident individual holder does not obtain double tax treaty relief at the time the dividend income is paid to such a non-resident individual holder and income tax is withheld by a Russian payer of the income, such non-resident individual holder may apply for a refund within one year following the end of the tax period (a calendar year) in which the relevant income was received. See "*— Refund of tax withheld*". However, there can be no assurance that such double tax treaty relief (or refund of any taxes withheld) will be available for a non-resident holder.

### *GDRs*

Comments provided in respect of the taxation of dividend income for non-resident holders of shares are also applicable to GDRs. However, notwithstanding the foregoing, treaty relief for dividend payments received may not be available to non-resident holders of GDRs. In 2005, 2006 and 2007, the Ministry of Finance of the Russian Federation repeatedly expressed an opinion that GDR holders (rather than the Depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying ordinary shares, provided that the tax residencies of the depositary receipt holders are duly confirmed. However, in the absence of any specific provisions in Russian tax legislation with respect to the taxation of dividends attributable to GDR holders, it is unclear how the Russian tax authorities and courts would ultimately treat the GDR holders in this regard. Moreover, from a practical perspective, it may not be possible for the Depositary to collect residence confirmations from all GDR holders and submit such information to us and, in addition, we may be unaware of the exact amount of income payable to each particular holder. Although non-resident holders of GDRs may apply for a refund of a portion of the tax withheld under an applicable tax treaty, the procedure to do so may be time consuming and no assurance can be given that the Russian tax authorities would grant such a refund. See "*— Russian Tax Treaty Relief Procedures*". With respect to individuals who are non-resident holders of GDRs, we may also be obligated to withhold income tax at the rate of 15 percent from dividend payments made to the Depositary. We will not be able to act as a tax agent for these individuals and will not be able to withhold personal income tax with respect to such dividend payments. In practice, it may be impossible to apply a beneficial withholding tax rate in advance with respect to payments made in favor of individuals, as documentation is to be first provided to the tax authorities to obtain their approval for the double tax treaty relief. Individuals who are non-resident holders of GDRs will then be obliged to submit a personal tax return to the Russian tax authorities. When submitting the tax return, individuals may claim an application of the reduced rates of withholding tax established by the respective international double tax treaties, provided that the procedures described in "*— Russian tax treaty relief procedures*" are complied with. Obtaining the approvals from the relevant tax authorities may be time-consuming and burdensome. In practice, the tax authorities may not take into account the 15 percent tax withheld from payment of dividends to the Depositary as the tax authorities are unlikely to treat the 15 percent withholding tax as the tax liability of individual holders. Therefore, it is possible that non-resident holders may be subject to up to a 45 percent effective tax on dividends accrued on shares held on deposit, i.e. 15 percent income tax withheld by us plus a 15 percent or 30 percent (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes) Russian personal income tax payable on the self-assessed basis. See "*Risk Factors — Non-Russian resident GDR holders may not be able to benefit from double tax treaties in relation to Russian withholding taxes on dividends paid via the Depositary*".

Non-resident holders (individuals or legal entities) should consult their own tax advisors with respect to the tax consequences of the receipt of dividend income from a source within Russia.

## ***Taxation of capital gains***

### *Legal entities and organisations*

Capital gains arising from the sale, exchange or other disposal of the Securities by organisations that are non-resident holders should not be subject to tax in Russia if the immovable property located in Russia constitutes 50 percent or less of our assets. If more than 50 percent of our assets were to consist of immovable property located in Russia, legal entities and organisations that are non-resident holders of the Securities should be subject (except as described below) to a 20 percent withholding tax from the net capital gain (the difference between the sale or other disposal price and all expenses relating to the purchase, keeping and disposal of the Securities paid by the non-resident holder. If a non-resident holder is not able to present documentary evidence confirming expenses related to the purchase, keeping and disposal of the Securities, the tax should be withheld at 20 percent of the gross sales proceeds (even if the disposal itself resulted in a loss).

However, it should be noted that the determination of whether more than 50 percent of our assets consist of immovable property located in Russia is inherently factual and is made on an on-going basis, and the relevant Russian legislation and regulations in this respect are not entirely clear. Hence, there can be no assurance that immovable property owned by us and located in Russia will not constitute more than 50 percent of the Company's assets as at the date of the sale of Securities by non-residents. Certain international double tax treaties may provide for protection from the Russian taxation in the case in question. Where the Securities are sold by legal entities or organisations to persons other than a Russian company or a foreign company with a registered permanent establishment in Russia, even if the resulting capital gain is considered taxable in Russia, there is currently no mechanism under which the purchaser will be able to withhold the tax and remit it to the Russian Federal Treasury.

Gains arising from a sale of the foregoing types of securities on foreign stock exchanges (where these securities are listed) by non-resident holders that are organisations are not treated as income from a Russian source, and are not subject to taxation in Russia. Therefore, as long as the GDRs remain listed on a foreign stock exchange, gains arising from a sale of the GDRs on that foreign stock exchange by non-resident organisations should not be subject to taxation in Russia.

The above withholding tax rates are subject to any available double tax treaty relief. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed (See “— Russian Tax Treaty Relief Procedures”).

Non-resident holders that are legal entities should consult their own tax advisors with respect to this possibility.

### *Individuals*

The taxation of the income of non-resident individuals depends on whether this income is received from Russian or non-Russian sources. Russian tax law considers the place of sale as an indicator of source. Accordingly, the sale of the Shares and GDRs outside of Russia by individuals who are non-resident holders should not be considered Russian source income and, therefore, should not be taxable in Russia. However, the Russian tax law gives no clear indication as to how the place of sale of the Securities should be defined in this respect. Therefore, the Russian tax authorities may have a certain amount of flexibility in concluding whether a transaction is in, or outside, Russia. If proceeds from a disposal of the Securities are considered to be received from a Russian source, a non-resident holder who is an *individual* will generally be subject to tax at a rate of 30 percent, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (including, *inter alia*, the cost of acquisition of the Securities).

However, procedures for advance treaty relief are not provided for by the current Russian law with respect to non-resident holders who are *individuals*. Therefore, technically, for such an individual, a reduction of withholding income tax provided by the double tax treaty between Russia and the country of the tax residence of such non-resident individual could not be obtained. If a non-resident holder who is an individual does not obtain double tax treaty relief at the time the proceeds from disposal of ordinary shares are paid to such an individual and income tax is withheld by the Russian payer of such income, the non-resident individual may apply for a refund. However, there can be no assurance that such double tax treaty relief (or refund of any taxes withheld) will be available.

Under Russian law if the sale was made by a holder who is an individual through a professional trust manager, dealer, broker, commissioner or agent that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia, such professional trust manager, dealer, broker, commissioner or agent should also act as a tax agent and calculate (including apply deduction of acquisition value or other expenses at the source of payment), withhold the applicable tax from payments due to taxpayers and remit it to the budget. Such a tax agent

will be required to pay the respective amounts withheld within a month after the end of the reporting year or the date of the payment of income. In case of impossibility to withhold tax, tax agents have an obligation to notify the tax authorities.

Although prior to 2010 it was generally accepted that the responsibility to act as tax agents rested only with trust managers, brokers, dealers, commissioners or agents and no withholding needed to be made by other organisations and individuals and it was the individual holder who had an obligation to file a tax return, report his income realised and apply for a deduction of acquisition expenses, the recent amendments to the Tax Code of the Russian Federation which became effective from 1 January 2010, have added “other entities recognised as tax agents by the Tax Code of the Russian Federation” into the list of tax agents in respect of capital gains from the sale of securities. As a result, the tax authorities may require other Russian legal entities or foreign legal entities and organisations with a permanent establishment in Russia that are not professional trust managers, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from individuals.

Non-resident holders who are individuals should consult their own tax advisors with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposal of the Securities.

### ***Russian tax treaty relief procedures***

The Tax Code does not require a non-resident holder, which is a legal entity, to obtain tax treaty clearance from the Russian tax authorities prior to receiving any income in order to qualify for benefits under an applicable tax treaty. However, a non-resident legal entity seeking to obtain relief from Russian withholding tax under a tax treaty must provide, to a tax agent (i.e. the entity paying income to a non-resident), a confirmation of its tax treaty residence that complies with the applicable requirements in advance of receiving the relevant income.

In accordance with the Russian Tax Code, a non-resident holder, who is an individual, must present to the tax authorities a document confirming his residency in his or her home country and also other supporting documentation, including a statement confirming the income received and the tax paid offshore, confirmed by the foreign tax authorities. Technically, such a requirement means that an individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his residence. Therefore advance relief from withholding taxes for individuals will generally be impossible as it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the tax authorities obtained before the year end. A non-resident holder, which is an individual, may apply for treaty-based benefits within one year following the end of the tax period in which the relevant income was received.

It should also be noted that the President of Russia in his budget message of 25 May 2009, expressed a goal of introducing legal mechanisms to restrict the use of international double tax treaties for the purpose of minimising taxes where the ultimate beneficiaries are not residents of either countries party to the relevant double tax treaty. It is unclear what form such legal mechanisms may take, how they may be applied or when they may be introduced; however, we are aware of the fact that relevant amendments to the Russian Tax Code have already been drafted. Depending upon the form of amendments, if and when enacted, such amendments may result in the inability for our foreign entities to claim benefits under a double taxation treaty through structures which, historically, were subject to double taxation treaty protection in Russia.

Furthermore, the Russian Government Regulation on entering into international double tax treaties and the prevention of tax evasion No. 84 dated 24 February 2010, have introduced the new Model Convention on avoidance of double taxation and prevention of tax evasion between the Russian Federation and the foreign states. It is intended that it will be used by the Russian authorities as a guideline when negotiating new double tax treaties and/or renegotiating existing treaties and it is indicative of a trend towards restricting the use of double tax treaties for the purpose of minimising taxes. In particular, the new Model Convention contains a new paragraph named “Restriction of benefits” that limits the use of treaty benefits by persons or entities (i) if, in the opinion of the competent authorities of the states parties (including the Russian tax authorities), such usage would constitute an abuse of the purposes of the treaty, or (ii) that are 50 percent or more owned by an entity that is not resident in either of the states party to the relevant treaty; and specifies the provisions concerning the assistance in tax collection. However, it is unclear at the moment whether the provisions of this Resolution will be implemented with existing treaty partners by protocols or by entering into new treaties, or whether the new initiative will be implemented at all though it was announced recently that relevant protocol to the Double Tax Treaty with the Republic of Cyprus initiated earlier is planned to be ratified in October 2010.

***Refund of tax withheld***

If a non-resident holder, which is a legal entity or an organisation does not obtain tax treaty relief at the time that income or gains are realised and the Russian withholding tax on income was withheld by the source of payment, a refund of such tax is possible within three years from the end of the tax period (a calendar year) in which the income was paid. A non-resident holder, which is an individual, may apply for refund of such tax within one year following the end of the tax period in which the relevant income was received.

In order to obtain a refund, the non-resident holder that is a legal entity or an organisation would need to file with the Russian tax authorities: (i) a confirmation of the tax treaty residence of the non-resident at the time the income was paid; (ii) an application for the refund of the tax withheld in a format provided by the Russian tax authorities; and (iii) copies of the relevant contracts under which the foreign entity received income as well as payment documents confirming the payment of the tax withheld to the Russian budget (Form 1012DT for dividends and interest and Form 1011DT for other income are designed by the Russian tax authorities to connect the requirements specified in (i) and (ii) above and recommended for application). The Russian tax authorities may require a Russian translation of the above documents if they are prepared in foreign language. The refund of the tax withheld should be granted within one month of the filing of the required documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds.

The procedures referred to above may be more complicated with respect to GDRs because Russian tax law does not comprehensively address taxation and tax treaty procedures for dividends payable under GDRs. Thus, no assurance can be given that we will be able to apply the respective double tax treaties when paying dividends to non-resident holders in relation to GDRs.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian tax law.

Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties.

**Resident investors*****Taxation of dividend income******Shares***

Dividends paid to a Russian resident holder of the Shares that is a Russian legal entity or organisation or an individual will be generally subject to Russian withholding tax at the rate of 9 percent. The effective rate of this tax may be lower than 9 percent owing to the fact that generally we should calculate this tax based on the formula that takes into consideration the difference between (i) the dividends to be distributed by us to our shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by us in the current and preceding tax (reporting) periods (except for dividends taxable at the rate of 0 percent under the current Russian tax law) provided that these amounts have not previously been taken into consideration when calculating tax on dividends. Dividends received by Russian legal entities from the qualified Russian and foreign subsidiaries are taxable at the rate of 0 percent. This participation exemption is available with respect to subsidiaries in which (1) the participation of the parent company is not less than 50 percent, and (2) the amount of participation is not less than RUR 500 million (approximately EUR 12.5 million at the exchange rate of 40 Roubles for 1 Euro), although please note that starting from 2011 (including dividends in respect of 2010) there will be no threshold amount of participation for this exemption, and (3) the participation has been held for more than 365 days, and (4) the subsidiary is not a resident of one of the jurisdictions included into the list of tax havens by the Russian Ministry of Finance. According to clarifications issued by the Russian tax authorities, it may be possible to claim that the 9 percent withholding tax rate should apply to dividends paid to a Russian permanent establishment of a foreign organisation, based on the non-discrimination provisions of the double tax treaty between Russia and the country of tax residency of the respective foreign organisation. However, as the Russian Tax Code does not specifically provide for the application of the reduced tax rate in such situations and the application of treaty-based non-discrimination cases is still rare in Russian tax practice, no assurance can be given that claims for the application of the 9 percent tax rate would not be challenged by the Russian tax authorities, hence it is likely that a 15 percent withholding tax rate would be applied by us.

### *GDRs*

There are uncertainties in relation to withholding tax on dividends payable to Russian resident holders of GDRs primarily because the taxation of dividends payable under GDRs is poorly addressed in Russian tax law. Although in 2005 there was a single clarification of the Russian Ministry of Finance having a private nature (not having legislative nature) stating that Russian residents if their income in the form of dividends was taxed at the rate of 15 percent may claim a refund or credit of the tax relating to the difference between the 15 percent and 9 percent tax rates, we can not assure that the above clarification would apply to Russian holders of GDRs or whether the Russian tax authorities would follow the above approach. Based on the above and as the Depository (and not the holders of the GDRs) is the legal holder of ordinary shares under Russian law, we will likely withhold tax at a domestic rate of 15 percent applicable to dividends payable to non-resident holders (as described below). Upon receiving dividends, Russian holders, which are legal entities, may be required to pay additional Russian corporate income tax at the rate of 9 percent or 20 percent (if the income received is not recognised as dividends) while for Russian holders, who are individuals — personal income tax at the rate of 9 percent or 13 percent (the higher rate applies if the income received is not recognised as dividends for Russian tax purposes). There is also no established procedure providing for the refund or credit of tax withheld from dividends payable through the Depository to Russian resident holders of GDRs. Accordingly, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the GDRs.

Russian resident holders should consult their own tax advisors with respect to the tax consequences of the receipt of dividend income from a source within Russia.

### *Taxation of capital gains*

A holder who is an individual resident or legal entity resident in Russia for tax purposes is subject to all applicable Russian taxes including any documentation that may be required by law or practice in respect of gains from disposal of the Securities.

### *Legal entities and organisations*

A resident holder which is a *legal entity or organisation* should generally be subject to Russian profits tax at a rate of 20 percent from the net capital gain to be generally determined as the gross proceeds from the disposal of ordinary shares less cost of acquisition of such ordinary shares and expenses incurred by such resident holder in relation to the acquisition, holding and sale of ordinary shares provided that the cost of acquisition of the Securities disposed and other above expenses could be confirmed by proper source documents. Russian tax legislation contains a requirement that in general financial results (profit or loss) arising from transactions with securities quoted on a stock exchange should be calculated and accounted separately from financial results arising from transactions with securities that are not quoted on a stock exchange and from other profits. Therefore, Russian resident holders that are legal entities or organisations may be able to apply losses arising in respect of the Securities quoted on a stock exchange only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposal of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a broker and/or dealer license. The Tax Code also establishes special rules for the calculation of the tax base for the purposes of transactions with securities.

Resident holders which are legal entities should consult their own tax advisors with respect to the tax consequences of gains derived from the disposal of the Securities.

### *Individuals*

A resident holder who is an *individual* will generally be subject to income tax at a rate of 13 percent in respect of gross proceeds from a disposal of the Securities less any available cost deduction (including, *inter alia*, the cost of acquisition of title ordinary shares and GDRs). Similarly for legal entities or organisations, Russian tax legislation contains a requirement that a financial result in respect of activities connected with securities quoted on a stock exchange must be calculated separately from a financial result in respect of trading in non-quoted securities. Russian resident holders may carry forward losses arising from dealing with the quoted securities or derivatives having the quoted securities as underlying assets to offset future capital gains from the sale, exchange or other disposal of other quoted securities or derivatives having the quoted securities as underlying assets. No loss carry-forward is available for non-quoted securities and derivatives.

Under Russian law if the sale was made by a holder through a professional trust manager, dealer, broker, commissioner or agent that is a Russian legal entity or a foreign legal entity or organisation with a permanent establishment in Russia, such professional trust manager, dealer, broker, commissioner or agent should also act as a

tax agent and calculate (including apply deduction of acquisition value or other expenses at the source of payment), withhold the applicable tax from payments due to taxpayers and remit it to the budget. Such a tax agent will be required to pay the respective amounts withheld within a month after the end of the reporting year or the date of the payment of income. In case of impossibility to withhold tax, tax agents have an obligation to notify the tax authorities.

Although prior to 2010 it was generally accepted that the responsibility to act as tax agents rested only with trust managers, brokers, dealers, commissioners or agents and no withholding needed to be made by other organisations and individuals and it was the individual holder who had an obligation to file a tax return, report his income realised and apply for a deduction of acquisition expenses, the recent amendments to the Tax Code of the Russian Federation which became effective from 1 January 2010, have added “other entities recognised as tax agents by the Tax Code of the Russian Federation” into the list of tax agents in respect of capital gains from the sale of securities, including the GDRs. As a result, the tax authorities may require other Russian legal entities or foreign legal entities and organisations with a permanent establishment in Russia that are not professional trust managers, dealers or brokers to act as tax agents and withhold the applicable tax when purchasing securities from individuals.

Resident holders who are individuals should consult their own tax advisors with respect to the tax consequences of gains derived from the disposal of the Securities.

Russian VAT is not applied to the dividend income on the Shares and to the proceeds from sale, redemption or disposal of the Securities. Therefore, no VAT will be payable in Russia on any payment of dividends or capital gains in respect of the Securities.

### **Taxation of acquisition of the Securities**

No Russian tax implications should arise for holders of the Securities, either resident holders or non-resident holders, upon purchase of the Securities. However, under certain conditions a taxable material gain may arise for individuals if the Securities are purchased at the price below the market value determined by Russian tax legislation.

### **Stamp duties**

No Russian stamp duty will be payable by the holders of Securities upon the carrying out of transactions with the Securities as discussed in the Taxation section of this Prospectus (i.e. on a purchase of the Securities, sale of the Shares, etc.), except for the state duty for issuing inherited property certificate with respect to Securities that is calculated as maximum 0.6 percent of Shares' value.

## **UNITED KINGDOM TAX CONSIDERATIONS**

The comments below are of a general nature and are based on current UK law and published HM Revenue & Customs practice as of the date of this Prospectus, both of which are subject to change, possibly with retroactive effect. This summary only covers the principal UK tax consequences for the absolute beneficial owners of Securities and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for UK tax purposes as those persons' own income, and not the income of some other person, and who are resident, (and, in the case of individuals only, ordinarily resident and domiciled) in the UK for tax purposes and who are not resident in any other jurisdiction and do not have a permanent establishment or fixed base in any other jurisdiction with which the holding of Securities is connected (“**UK holders**”), except insofar as express reference is made to the treatment of non-UK residents. In addition, this summary: (a) only addresses the tax consequences for UK holders who hold the Securities as capital assets and does not address the tax consequences which may be relevant to certain other categories of UK holders, for example, dealers; (b) does not address the tax consequences for UK holders that are banks, financial institutions, insurance companies, collective investment schemes or persons connected (other than by reason of holding the Securities) with the Company; (c) assumes that the UK holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, ten percent or more of the ordinary shares or voting power, rights to profit or capital of the Company; (d) assumes that there will be no register in the UK in respect of any interest in the Securities or; (e) assumes that the GDRs will not be issued by a depositary incorporated in the UK; (f) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the UK; (g) assumes that the UK holder of GDRs is, for UK tax purposes, beneficially entitled to the underlying Shares and to dividends on those Shares; (h) assumes that the UK holder has not (and is not deemed to have) acquired the Securities by virtue of an office or employment; and (i) assumes that the Company is not resident for tax purposes in the UK.

THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR UK HOLDER.

POTENTIAL INVESTORS SHOULD SATISFY THEMSELVES AS TO THE OVERALL TAX CONSEQUENCES, INCLUDING, SPECIFICALLY, THE CONSEQUENCES UNDER RUSSIAN LAW, UK LAW AND HM REVENUE & CUSTOMS PRACTICE, OF ACQUISITION, OWNERSHIP AND DISPOSITION OF GDRS IN THEIR OWN PARTICULAR CIRCUMSTANCES, BY CONSULTING THEIR OWN PROFESSIONAL TAX ADVISORS.

## **Taxation of dividends**

### ***Income tax and corporation tax***

#### *Individual holders of Shares or GDRs*

Dividends received by individual UK holders will be subject to UK income tax. This is charged on the gross amount of any dividend paid before the deduction of any Russian withholding taxes (the gross dividend), and as increased for any UK tax credit available as described below. An individual holder who is resident for tax purposes in the UK and who receives a dividend from the Company will generally be entitled to a tax credit equal to one-ninth of the amount of the gross dividend which is equivalent to ten percent of the aggregate of the dividend and the tax credit. An individual UK holder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of ten percent, so that the tax credit will satisfy the income tax liability of such a holder in full.

An individual holder who is subject to income tax at the higher rate will be liable to income tax on the gross dividend at the rate of 32.5 percent to the extent that such sum, when treated as the top slice of that holder's income, falls above the threshold for higher rate income tax (which is £37,400 in the 2010/2011 tax year). After taking into account the ten percent tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 percent of the gross dividend, equal to 25 percent of the net dividend, before any credit in respect of Russian withholding tax. See "*— Withholding tax*".

If and to the extent that the gross dividend received by a UK individual holder falls above the threshold for income tax at the additional rate (which is £150,000 in the 2010/2011 tax year), that individual will be subject to tax on the gross dividend at the rate of 42.5 percent. The holder should be able to set off the tax credit against part of his liability with the effect that the holder would have to account for additional tax equal to 32.5 percent of the gross dividend, to the extent that the gross dividend fell above the threshold for the additional rate of income tax, which is equal to 36½ percent of the net dividend, before any credit in respect of Russian Withholding tax (see "*— Withholding tax*" below).

An individual holder who is not resident in the UK for tax purposes will not be liable to UK income tax on dividends paid by the Company unless such holder carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Shares or GDRs for the purposes of such trade, profession or vocation, branch or agency.

Where the tax credit exceeds the holder's tax liability the holder cannot generally claim repayment of the tax credit from HM Revenue & Customs.

#### *Corporate holders of Shares or GDRs*

Where a holder is within the charge to corporation tax, it will be subject to corporation tax on the actual amount of any dividend paid on the Shares or GDRs, subject to any applicable credit for Russian withholding tax, unless (subject to special rules for such holders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Although it is likely that most dividends paid on the Shares or GDRs to holders within the charge to UK corporation tax would fall within one or more of the classes of dividend qualifying for exemption from corporation tax, the exemptions are not comprehensive and are also subject to anti-avoidance rules.

Where a dividend paid by the Company is treated as exempt, UK holders within the charge to UK corporation tax will not be entitled to claim relief by way of credit in the United Kingdom in respect of any tax paid by the holder under the laws of Russia, either directly or by deduction, in respect of that dividend.

#### *Withholding tax*

Dividend payments in respect of the Shares or GDRs should not be subject to UK withholding tax.

Prospective individual and corporate holders of Shares or GDRs should note that dividend payments in respect of the Shares or GDRs are subject to Russian withholding tax, currently at the rate of 15 percent. Prospective holders are referred to in "*— Non-resident investors — Taxation of dividend income*" in the Russian taxation section.

Individual holders subject to income tax at the basic rate may be entitled to a credit in the UK for Russian withholding tax deducted at source from the dividend payment. However, as the 10 percent tax credit described above should mean that they have no further UK income tax to pay in relation to the dividend, such credit will generally not be used and will generally not be refundable.

Individual holders subject to income tax at the higher rate or the additional rate may be entitled to a credit in the UK for Russian withholding tax deducted at source from the dividend payment. Credit will not be available to the extent that the Russian withholding tax can be minimised or repaid by taking all reasonable steps under the UK-Russia double tax treaty or under a provision of Russian law.

Prospective corporate holders of Shares or GDRs should note that, where a dividend paid by the Company is treated as exempt in the UK (see “— *Corporate holders of Shares or GDRs*” above), the holder will not be entitled to claim relief by way of credit in the UK in respect of any tax paid by the holder under the laws of Russia, either directly or by deduction, in respect of that dividend.

Prospective individual and corporate holders of Shares or GDRs should note that an application for a refund of Russian withholding tax may be time consuming, and there can be no assurance that a refund would be granted. In particular, the Russian tax authorities may not treat a holder of GDRs as being the beneficial owners of dividends paid to them, for the purposes of the UK-Russia double tax treaty, in which case relief under the treaty would not be available (see “— *Non Resident Investors — Taxation of Dividend — GDRs*” and “— *Russian Tax Treaty Relief Procedures*” in the Russian tax section). For this reason, and reasons given above, holders may be left without credit or relief in both Russia and the UK in respect of Russian withholding tax.

**Prospective holders are referred to “*Taxation — Non-resident investors — Taxation of dividend income — GDRs — Russian tax treaty relief procedures / Refund of tax withheld*”. Prospective individual and corporate holders of Shares or GDRs should consult their own tax advisors with respect to the tax consequences of the receipt of dividend income from a source within Russia.**

#### ***Provision of information***

Persons in the United Kingdom paying “foreign dividends” to, or receiving “foreign dividends” on behalf of, an individual may be required to provide certain information to H.M. Revenue & Customs regarding the identity of the payee or the person entitled to the “foreign dividend” and, in certain circumstances, such information may be exchanged with tax authorities in other countries. Certain payments on or under the Shares or GDRs may constitute “foreign dividends” for this purpose.

#### **Taxation of chargeable gains**

The disposal or deemed disposal of Shares or GDRs by a UK holder, or by a non-UK resident individual who carries on a trade, profession or vocation in the UK through a branch or agency to which the Shares or GDRs are attributable or by a non-UK resident company who carries on a trade in the UK through a permanent establishment, may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains, depending on the UK holder’s circumstances and subject to any available exemption or relief. In the case of a corporate UK holder or a company which carries on a trade in the UK through a permanent establishment to which the Shares or GDRs are attributable, indexation allowance may be available to reduce or eliminate a chargeable gain, but not generate or increase an allowable loss. In the case of an individual UK holder, or a non-UK resident individual who carries on a trade, profession or vocation in the UK through a branch or agency to which the Shares or GDRs are attributable, indexation allowance is not available and chargeable gains are generally liable to capital gains tax at the applicable rate. An individual UK holder, or a non-UK resident individual who carries on a trade, profession or vocation in the UK through a branch or agency to which the Shares or GDRs are attributable, is entitled to an annual exemption from UK tax on chargeable gains currently up to £10,100 (in the 2010/2011 tax year).

In addition, UK holders who are individuals and who dispose of their GDRs while they are temporarily non-resident (i.e. not resident and not ordinarily resident) may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the UK if (broadly speaking) the period of non-residence is less than five tax years. Any gains or losses in respect of currency fluctuations over the period of holding the Shares or GDRs would also be brought into account on the disposal.

Prospective individual and corporate holders of Shares or GDRs are referred to “— *Non-resident investors — Taxation of capital gains*” in the Russian tax section, which describes circumstances in which disposals of Shares or GDRs may attract Russian withholding tax.



Credit against UK capital gains or corporation tax on the same gain, or relief under the UK-Russia double tax treaty, may be available in respect to any Russian tax suffered, subject to similar considerations and uncertainties as described above in “— *Taxation of dividends — Withholding tax*”.

### **Stamp duty and stamp duty reserve tax**

No UK stamp duty or stamp duty reserve tax should be payable on (i) the issue of the Shares or the GDRs, (ii) the delivery of the GDRs into Euroclear or Clearstream, Luxembourg, or (iii) any dealings in the GDRs once they are delivered into such clearance systems, where such dealings are effected in book-entry form in accordance with the procedures of the relevant clearance service and not by written instrument of transfer.

No stamp duty reserve tax should be payable in respect of any agreement to transfer the Shares or GDRs.

Assuming that any document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or GDRs is neither (i) executed in the UK, nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK (which may include involvement of UK bank accounts in payment mechanics), then no UK *ad valorem* stamp duty should be payable on such document.

Even if a document effecting a transfer of, or containing an agreement to transfer an equitable interest in, one or more of the Shares or GDRs is (i) executed in the UK and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the UK, in practice it should not be necessary to pay any UK *ad valorem* stamp duty on such document unless the document is required for any purposes in the UK. If it is necessary to pay UK *ad valorem* stamp duty, it may also be necessary to pay interest and penalties.

### **Inheritance tax**

UK inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by, the owner of Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the UK. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

## SELLING AND TRANSFER RESTRICTIONS

No action has been or will be taken in any jurisdiction that would permit a public offering of the Securities, or possession or distribution of the Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Securities may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisement in connection with the Securities may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession the Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer, subscription and sale of the shares, including those in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Prospectus does not constitute an offer to subscribe for or buy any of the shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### European Economic Area

In relation to each Relevant Member State, no Securities have been offered or will be offered pursuant to the Offer to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Securities which have been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that offers of the Securities may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Coordinators; or
- (iv) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of Securities shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Securities or to whom any offer is made under the Offer will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purpose of the expression an “offer of any Securities to the public” in relation to any Securities in any Relevant Member State means a communication to persons in any form and by any means presenting sufficient information on the terms of the offer and the Securities to be offered, so as to enable an investor to decide to acquire any Securities.

In the case of any Securities being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Securities acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Securities to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Joint Global Coordinators has been obtained to each such proposed offer or resale. The Company, the Selling Shareholder, the Joint Global Coordinators and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Joint Global Coordinators of such fact in writing may, with the prior consent of the Joint Global Coordinators, be permitted to acquire Securities in the Offer.

## **United Kingdom**

Each of the Managers has acknowledged that:

- (i) it may only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the ordinary shares in circumstances in which section 21(1) of the FSMA does not apply to us and the Selling Shareholder; and
- (ii) it must comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ordinary shares in, from or otherwise involving the United Kingdom.

## **United States**

The Securities have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States, except in certain transactions exempt from or not subject to the registration requirements of the Securities Act. The Securities are being offered and sold outside the United States in offshore transactions as defined in, and in reliance upon, the Regulation S.

## **Russia**

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

## **Switzerland**

Any offering of the Securities in Switzerland is made only to sophisticated investors on a strict private placement basis. The Securities may not be publicly offered, distributed or re-distributed in Switzerland and neither the Prospectus nor any other material relating to the Securities nor any other solicitation for investment in the shares may be communicated, copied, made available or distributed in or from Switzerland in any way that could constitute a public offering within the meaning of Article 652a of the Swiss Code of Obligations. The Prospectus as well as any other material relating to the Securities is personal and confidential to each offeree and does not constitute an offer to any other person. The Prospectus may only be used by those sophisticated investors to whom it has been handed out in connection with the offer described herein. The Prospectus is not a prospectus within the meaning of Article 652a or 1156 of the Swiss Code of Obligations respectively or a listing prospectus according to Article 32 et seq. of the Listing Rules of the SWX Swiss Exchange, and may not comply with the disclosure standards of the SWX Swiss Exchange Listing Rules and with the corresponding prospectus schemes annexed to the Listing Rules of the SWX Swiss Exchange. We will not apply for a listing of the Securities on any Swiss stock exchange.

## **TRANSFER RESTRICTIONS**

### **Regulation S GDRs**

Each purchaser of the GDRs offered in reliance on Regulation S (the Regulation S GDRs) will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

1. the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
2. the purchaser is aware that the Regulation S GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
3. any offer, sale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by the Company in respect of the Regulation S GDRs; and
4. the Company, the Selling Shareholder, the Joint Global Coordinators and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

## SETTLEMENT AND TRANSFER

### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

### **REGISTRATION AND FORM OF GDRS**

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by a Master Regulation S GDR registered in the name of The Bank of New York Depository (Nominees) Limited, as nominee for The Bank of New York Mellon, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg. The aggregate holdings of book-entry interests in the GDRs in Euroclear and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Euroclear and Clearstream, Luxembourg and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream, Luxembourg and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement.

### **GLOBAL CLEARANCE AND SETTLEMENT PROCEDURES**

#### **Initial settlement**

The GDRs will be evidenced by a Master Regulation S GDR. Purchasers electing to hold book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts.

#### **Secondary market trading**

For a description of the transfer restrictions relating to the GDRs, see "*Selling and Transfer Restrictions — Transfer Restrictions*".

*Trading between Euroclear and Clearstream, Luxembourg participants.* Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

## **General**

Although the foregoing sets forth the procedures of Euroclear and Clearstream, Luxembourg in order to facilitate the transfers of interests in the GDRs among participants of Euroclear and Clearstream, Luxembourg neither Euroclear nor Clearstream, Luxembourg are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of us, the Joint Global Coordinators, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

## **CLEARING AND SETTLEMENT OF SHARES**

The Shares will be delivered by the Selling Shareholder to the Managers or, as the case may be, their affiliates, on or about 11 November 2010. Delivery of, and payment for, the Shares is expected to commence immediately following such date.

Each purchaser of the Shares must pay for such Shares in US dollars or Roubles. Investors must notify the Joint Global Coordinators of the currency of payment not later than the date of this Prospectus.

In order to take delivery of the Shares, each purchaser should either have a direct account with the registrar or a deposit account with DCC, or NDC or any other depositary that has an account with DCC or NDC or a direct account with the Company's registrar. Investors may, at their own expense, choose to hold the Shares through a direct account with the MCD or a Russian-licensed depositary (other than DCC or NDC) having an account with the MCD. However, any Shares that are directly held are ineligible for trading on MICEX or RTS.

### **INFORMATION RELATING TO THE DEPOSITARY**

The Depositary is BNY Mellon (Cyprus) Nominees Limited. It was incorporated in the Republic of Cyprus on 30 March 2010 under Companies Law, Cap.113 as a Limited Liability Company. The number of the registration certificate is 265017. It is a wholly owned subsidiary of the Bank of New York Mellon Corporation, a New York bank holding company. The registered office of the Depositary is located at Arch. Makariou III, 195, Neocleous House, P.C.3030, Limassol, Cyprus. A copy of the Depositary's Articles of Association, as amended, together with copies of the Bank of New York Mellon Corporation's most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, New York 10286 and at the Bank of New York Mellon, One Canada Square, London E14 5AL, United Kingdom.

## **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon for us and the Selling Shareholder with respect to the laws of England, the United States and the Russian Federation by Freshfields Bruckhaus Deringer LLP. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to the laws of England and the United States by Skadden, Arps, Slate, Meagher & Flom (UK) LLP and with respect to the laws of the Russian Federation by Skadden, Arps, Slate, Meagher & Flom LLP.

## INDEPENDENT AUDITORS

Our consolidated financial statements as of and for the years ended 31 December 2009, 2008 and 2007 have been audited by ZAO Deloitte & Touche CIS, independent auditors. ZAO Deloitte & Touche CIS's auditor's report was without qualification and included an emphasis of matter to draw attention to Note 25 of the Audited Financial Statements, which discloses significant concentrations of transactions with related parties. ZAO Deloitte & Touche CIS has registered offices at Business Centre "White Square" 5 Lesnaya St., Bldg. B, Moscow, 125047, Russian Federation. ZAO Deloitte & Touche CIS is a member of non-commercial partnership "Audit Chamber of Russia".

ZAO Deloitte & Touche CIS has given and not withdrawn its written consent to the inclusion in this prospectus of its auditor's report set out in this prospectus in the form and context in which it is included and has authorised the contents of the report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules. For the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rule, ZAO Deloitte & Touche CIS has also accepted responsibility for the report as part of the prospectus and declared that it has taken all reasonable care to ensure that the information contained in that reports is, to the best of its knowledge, in accordance with the facts and contains no omissions likely to affect its import. As the securities have not and will not be registered under the Securities Act, ZAO Deloitte & Touche CIS has not filed a consent under the Securities Act.



**GLOSSARY OF CERTAIN GENERAL TERMS AND ABBREVIATIONS**

- “**2030 Development Strategy**” means Russian Government Order “On the Development Strategy of Railway Transportation in the Russian Federation until 2030” No. 887-p dated 17 June 2008;
- “**Board**” or “**board of directors**” means a board of directors in the terms of Joint Stock Companies Law;
- “**Board of Directors**” means the Company’s board of directors;
- “**CAGR**” means compound annual growth rate;
- “**CBR**” means the Central Bank of the Russian Federation;
- “**CEO**” means the chief executive officer, a sole executive body in the terms of Joint Stock Companies Law;
- “**CIS**” means the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members or associate members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan;
- “**Civil Code**” means part 1 and part 2 of the Civil Code of the Russian Federation, dated 30 November 1994 and 26 January 1996 respectively (as amended);
- “**Company**” or “**TransContainer**” means Open Joint Stock Company Center for Cargo Container Traffic “TransContainer”;
- “**Competition Law**” means the Russian Federal Law on Protection of Competition No. 135-FZ dated 26 July 2006 (as amended);
- “**Currency Law**” means the Russian Federal Law on Currency Regulation and Currency Control No. 173-FZ of 10 December 2003 (as amended);
- “**EEA**” means the European Economic Area;
- “**Euro**” and “**€**” means the currency of the member states of the EU participating in the European Monetary Union;
- “**EU**” means the European Union and its member states as at the date of this Prospectus;
- “**FAS**” means the Federal Anti-monopoly Service of the Russian Federation;
- “**Forwarding Law**” means the Federal Law “On Forwarding Services”, No. 87-FZ dated 30 June 2003 (as amended);
- “**FSFM**” means the Federal Service for Financial Markets of the Russian Federation;
- “**FTS**” means the Federal Tariff Service of the Russian Federation;
- “**GDP**” means gross domestic product;
- “**GDR**” mean global depositary receipt;
- “**Joint Stock Companies Law**” means the Federal Law “On Joint Stock Companies” No 208-FZ dated 26 December 1995 (as amended);
- “**MCD**” means Open Joint Stock Company Moscow Central Depository;
- “**Natural Monopolies Law**” means the Federal Law “On Natural Monopolies” No. 147-FZ dated 17 August 1995 (as amended);
- “**Offering**” means the offering by the Selling Shareholder of 5,002,118 Shares in the form of Ordinary Shares and GDRs and an offering by Moore of 347,369 Ordinary Shares in the form of GDRs;
- “**On Limitations in Relation to the Assets of Russian Railways**” means the Regulation of the Government of the Russian Federation No. 57 dated 6 February 2004 “On the Assets of Open Joint Stock Company “Russian Railways” Limited in Circulation” (as amended);
- “**Prospectus Directive**” means the EU Prospectus Directive (2003/71/EC) and includes any relevant implementing measures in each Relevant Member State;
- “**Railway Transport Law**” means the Federal Law “On Railway Transportation” No. 17-FZ dated 10 January 2003;

- “**Reform Programme**” means the Russian Government Regulation “On the Programme of Structural Reform of Railway Transportation” No. 384 dated 18 May, 2001, as amended;
- “**Regulation S**” means Regulation S under the Securities Act;
- “**Relevant Member State**” means a Member State of the EEA which has implemented the Prospectus Directive;
- “**Rouble**”, “**Roubles**”, “**RUB**” or “**RUR**” means the currency of the Russian Federation;
- “**Securities Act**” means the United States Securities Act of 1933 (as amended);
- “**Selling Shareholder**”, “**Russian Railways**” or “**RZD**” means Open Joint Stock Company “Russian Railways”;
- “**Shares**” means the ordinary shares of RUR 1,000 each in the charter capital of the Company offered in the Offering;
- “**Sites of Common Use**” is a designation under Russian law of those railway assets (warehouses, container platforms on railway stations) that are used for providing loading and unloading services, sorting services and for storing goods, including containers;
- “**Tax Code**” means the Tax Code of the Russian Federation that consists of two parts: 1) Part 1 dated 31 July 1998 No. 108-FZ (as amended) and 2) Part 2 dated 5 August 2000 No. 117-FZ (as amended);
- “**UK**” or “**United Kingdom**” means the United Kingdom of Great Britain and Northern Ireland;
- “**US**” or “**United States**” mean the United States of America;
- “**US Dollar**”, “**US Dollars**” or “**US\$**” mean the currency of the United States;
- “**VAT**” means value added tax; and

#### **GLOSSARY OF CERTAIN TERMS USED IN THE LOGISTICS AND CONTAINER TRANSPORT INDUSTRIES**

- “**third-party logistics**” means logistics services outsourced by customers to third party services providers who use their own assets and resources for a specific function and typically include integrated warehousing and transportation services that can be scaled and tailored to customer’s needs;
- “**container train**” means a train composed of flatcars operating on a regular schedule on a specific route;
- “**containerisation level**” means the volume of particular goods transported in containers as a percentage of the total volume of such particular goods transported;
- “**containerisation**” means the use of containers for cargo transportation, supply and storage. Containerisation incorporates supply, transportation, packaging, storage and security together with visibility of container and its contents into a distribution system from source to user;
- “**domestic operations**” or “**domestic traffic**” means transporting of container traffic which both originates and terminates within the Russian Federation;
- “**export operations**” means transporting of export-bound container traffic, as indicated in the respective waybill;
- “**feeder transport**” means a vehicle, normally used for local transport of cargo and/or containers to and from terminals/warehouses not serviced by container trains to the main rail-side terminal hubs;
- “**flatcar**” means a specialised type of rolling stock designed to carry containers;
- “**gantry crane**” means a crane or hoisting machine mounted on a frame or structure spanning an intervening space, which often travels on rails;
- “**gondola**” means a type of rolling stock with a flat bottom and relatively low sides, used to haul material such as ore or scrap, and loaded and unloaded from the top. May be covered or uncovered;
- “**import operations**” means transporting of import-bound container traffic, as indicated in the respective waybill;
- “**insulated container**” means a thermal container without the use of devices for cooling and/or heating;

- “**ISO container**” (or “**container**”) means a container manufactured according to specifications from the International Standards Organisation (ISO) and used for the intermodal transport of freight;
- “**line-of-business software**” means a set of one or more highly related software products which service a particular customer transaction or business need;
- “**loading front**” means a terminal area where containers are loaded onto and/or unloaded from flatcars;
- “**long-base flatcar**” means a flatcar designed to carry four TEUs;
- “**marshalling area**” (“**marshalling yard**”) means a railroad yard found at some freight train stations, used to separate a number of joined railroad cars on to one of several tracks;
- “**marshalling station**” means a railway station with a marshalling yard;
- “**MDC**” means medium duty container designed to carry loads not exceeding 5 tons;
- “**MIS**” means management information system;
- “**reach stacker**” means a container-handling truck that can stack containers and reach behind two rows of containers;
- “**rolling stock**” means cars for carrying cargo and passengers and other rolling stock designated for railway transportation;
- “**short-base flatcar**” means a flatcar designed to carry less than 4 TEUs;
- “**standard car**” means a railcar of 14 meters in length;
- “**standard train**” means a train composed of 71 standard cars and 1 locomotive;
- “**TEU**” means a twenty-foot equivalent unit. TEU is a measure of containerised cargo capacity equal to one standard 20ft ISO container; and
- “**time-charter based sea shipping service**” means sea shipping service provided by hiring a vessel for a specific period of time, for a remuneration known as hire, generally a monthly rate per ton deadweight or a daily rate. The charterer is free to employ the vessel as one think fit within the terms as agreed, but the ship owner continues to manage one’s own vessel through the captain and crew who remain serving on board.

## ADDITIONAL INFORMATION

1. All regulatory consents, approvals, authorisations or other orders required for the offer and sale of the Shares and GDRs under the laws of Russia have been given or obtained.
2. The Company's entering into the Underwriting Agreement and the Deposit Agreement was duly authorised by the general meeting of shareholders on 14 September 2010 in accordance with the Joint Stock Companies Law and Company's charter. The board of directors of Russian Railways duly approved and authorised Russian Railways' entering into the Underwriting Agreement and the transfers and sale of the Shares and the offer of the GDRs. The circulation of the Shares outside Russia in the form of GDRs was approved by the FSFM on 14 October 2010.
3. It is expected that listing of the GDRs will take place on or about 12 November 2010, subject only to the issuance of the Master GDRs. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 12 November 2010. Transactions will normally be effected for settlement in US dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.
4. There has been no significant change in our financial or trading position since 30 June 2010, the end of the last financial period for which financial information has been published, except as set forth in "*Operating and Financial Review — Recent Developments*".
5. There are no governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which we are aware, during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on our financial position or profitability.
6. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.
7. Copies of the following documents may be inspected at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS, United Kingdom, during usual business hours on any weekday, excluding Saturday, Sunday and public holidays, for a period of one year from publication of the Prospectus:
  - the Company's charter in effect upon completion of the Offering (in Russian);
  - our unaudited interim condensed consolidated IFRS financial information as of and for the six-month period ended 30 June 2010 (in English);
  - our audited annual consolidated IFRS financial statements as of and for the years ended 31 December 2009, 2008 and 2007 (in English); and
  - the Deposit Agreement (in English).
8. We prepare consolidated annual and interim financial statements in accordance with IFRS.
9. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Joint Global Coordinators. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date. The GDRs have no nominal or par value. The Offer Price was determined based on the results of the book building exercise conducted by the Joint Global Coordinators.
10. The Company does not have material subsidiaries.

[This page intentionally left blank]

## INDEX TO FINANCIAL INFORMATION

<b>Annual Financial Statements for the year ended 31 December 2009, 2008 and 2007</b> . . . . .	F-2
Independent Auditors' Report . . . . .	F-5
Consolidated statement of financial position . . . . .	F-6
Consolidated statement of comprehensive income . . . . .	F-7
Consolidated statement of cash flows . . . . .	F-8
Consolidated statement of changes in equity . . . . .	F-9
Notes to the consolidated financial statements . . . . .	F-10 - F-46
<b>Interim Condensed Consolidated Financial Information for the six-month period ended</b>	
<b>30 June 2010</b> . . . . .	F-47
Interim condensed consolidated statement of financial position . . . . .	F-50
Interim condensed consolidated statement of comprehensive income . . . . .	F-51
Interim condensed consolidated statement of cash flows . . . . .	F-52
Interim condensed consolidated statement of changes in equity . . . . .	F-53
Notes to the interim condensed consolidated financial information . . . . .	F-54 - F-66

**OPEN JOINT STOCK COMPANY  
“TRANSCONTAINER”**

**Consolidated Financial Statements**

For the Years Ended 31 December 2009, 2008 and 2007

OJSC “TRANSCONTAINER”

TABLE OF CONTENTS

	<u>Page</u>
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 .....	F-4
INDEPENDENT AUDITORS’ REPORT .....	F-5
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007:	
Consolidated statement of financial position .....	F-6
Consolidated statement of comprehensive income .....	F-7
Consolidated statement of cash flows .....	F-8
Consolidated statement of changes in equity .....	F-9
Notes to the consolidated financial statements .....	F-10 - F-46



## OJSC “TRANSCONTAINER”

### STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of OJSC “TransContainer” (the “Company”), its subsidiary and joint venture (the “Group”) as of 31 December 2009, 2008 and 2007, and the consolidated results of its operations, cash flows and changes in equity for the years then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance;
- Making an assessment of the Group’s ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the years ended 31 December 2009, 2008 and 2007 were approved by Management on 22 October 2010.

On behalf of the Management:

---

**P. V. Baskakov**  
General Director

---

**K. S. Kalmykov**  
Chief Accountant

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Open Joint Stock Company "TransContainer":

We have audited the accompanying financial statements of Open Joint Stock Company "TransContainer", its subsidiary and its joint venture (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009, 2008 and 2007, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009, 2008 and 2007, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without qualifying our opinion we draw your attention to Note 25 to the consolidated financial statements which disclose a significant concentration of the Group's transactions with related parties.

22 October 2010

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 31 DECEMBER 2009, 2008 AND 2007**

	Notes	2009	2008	2007
(Amounts in millions of Russian Roubles)				
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	7	23,097	22,059	15,800
Advances for acquisition of non-current assets . . . . .	7	2,308	2,276	736
Intangible assets . . . . .		102	76	38
Long-term investments . . . . .	8	206	304	280
<b>Total non-current assets . . . . .</b>		<b>25,713</b>	<b>24,715</b>	<b>16,854</b>
<b>Current assets</b>				
Inventory . . . . .		134	147	96
Trade and other receivables . . . . .	9	1,941	1,641	1,164
Prepayments and other current assets . . . . .	10	2,263	1,957	1,384
Prepaid income tax . . . . .		98	136	121
Short-term investments . . . . .	11	143	—	109
Cash and cash equivalents . . . . .	12	449	453	1,352
<b>Total current assets . . . . .</b>		<b>5,028</b>	<b>4,334</b>	<b>4,226</b>
<b>TOTAL ASSETS . . . . .</b>		<b>30,741</b>	<b>29,049</b>	<b>21,080</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital . . . . .	13	13,895	13,895	13,895
Reserve fund . . . . .	13	283	149	72
Other reserves . . . . .	13	(2,221)	(2,221)	(2,255)
Retained earnings . . . . .		6,486	6,299	2,959
<b>Total equity . . . . .</b>		<b>18,443</b>	<b>18,122</b>	<b>14,671</b>
<b>Non-current liabilities</b>				
Long-term debt . . . . .	14	1,520	—	—
Finance lease obligations, net of current maturities . . . . .	15	1,115	832	294
Employee benefit liability . . . . .	16	490	463	339
Deferred tax liability . . . . .	24	1,516	1,619	1,890
Deferred income . . . . .	15	49	—	—
<b>Total non-current liabilities . . . . .</b>		<b>4,690</b>	<b>2,914</b>	<b>2,523</b>
<b>Current liabilities</b>				
Trade and other payables . . . . .	17	3,172	4,057	3,149
Income tax payable . . . . .		76	16	24
Taxes other than income tax payable . . . . .	18	170	145	137
Provisions . . . . .		—	30	—
Finance lease obligations, current maturities . . . . .	15	793	357	94
Accrued expenses and other current liabilities . . . . .	19	184	320	482
Deferred income . . . . .	15	60	—	—
Five-year RUR bonds, series 1 . . . . .	20	3,153	3,088	—
<b>Total current liabilities . . . . .</b>		<b>7,608</b>	<b>8,013</b>	<b>3,886</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>		<b>30,741</b>	<b>29,049</b>	<b>21,080</b>

**P. V. Baskakov**  
General Director

**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007**

	Notes	2009	2008	2007
		(Amounts in millions of Russian Roubles, unless otherwise stated below)		
Revenue . . . . .	21	16,400	20,494	13,375
Operating expenses, net . . . . .	22	(14,726)	(15,570)	(10,686)
<b>Operating income</b> . . . . .		<b>1,674</b>	<b>4,924</b>	<b>2,689</b>
Interest expense . . . . .	23	(945)	(499)	(31)
Interest income . . . . .		35	98	115
Foreign exchange gain/(loss), net . . . . .		4	35	(38)
<b>Profit before income tax</b> . . . . .		<b>768</b>	<b>4,558</b>	<b>2,735</b>
Income tax expense . . . . .	24	(179)	(988)	(801)
<b>Profit and comprehensive income for the year</b> . . . . .		<b>589</b>	<b>3,570</b>	<b>1,934</b>
<b>Earnings per share, basic and diluted (Russian Roubles)</b> . . . . .		<b>42</b>	<b>257</b>	<b>139</b>
<b>Weighted average number of shares outstanding</b> . . . . .	13	<b>13,894,778</b>	<b>13,894,778</b>	<b>13,894,778</b>

---

**P. V. Baskakov**  
General Director

---

**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(Amounts in millions of Russian Roubles)		
<b>Cash flows from operating activities:</b>			
Profit before income tax . . . . .	768	4,558	2,735
Adjustments for:			
Depreciation and amortization . . . . .	2,250	2,154	1,727
Change in provision for impairment of receivables . . . . .	(25)	40	28
Gain on disposal of property, plant and equipment . . . . .	(257)	(20)	(51)
Loss on impairment of property, plant and equipment . . . . .	16	9	—
Loss from termination of finance lease . . . . .	—	7	—
Interest expense/(income), net . . . . .	910	401	(84)
Foreign exchange (gain)/loss, net . . . . .	(4)	(35)	38
Change in provision for tax liabilities, other than income tax . . . . .	(30)	30	(95)
<b>Operating profit before working capital changes . . . . .</b>	<b>3,628</b>	<b>7,144</b>	<b>4,298</b>
Decrease/(increase) in inventory . . . . .	13	(51)	(47)
Decrease/(increase) in trade and other receivables . . . . .	458	(518)	(265)
Increase in prepayments and other current assets . . . . .	(299)	(573)	(466)
(Decrease)/increase in trade and other payables . . . . .	(458)	558	960
(Decrease)/increase in taxes other than income tax . . . . .	(48)	8	(8)
Decrease in accrued expenses and other current liabilities . . . . .	(138)	(162)	293
Increase in employee benefit liabilities . . . . .	27	124	101
<b>Net cash from operating activities before income tax . . . . .</b>	<b>3,183</b>	<b>6,530</b>	<b>4,866</b>
Interest paid . . . . .	(832)	(385)	(31)
Income tax paid . . . . .	(183)	(1,281)	(1,124)
<b>Net cash provided by operating activities . . . . .</b>	<b>2,168</b>	<b>4,864</b>	<b>3,711</b>
<b>Cash flows from investing activities:</b>			
Capital expenditure . . . . .	(3,107)	(8,579)	(4,595)
Proceeds from disposal of property, plant and equipment . . . . .	135	76	37
Purchase of long-term investments . . . . .	(8)	(1)	(280)
Purchase of short-term investments . . . . .	(88)	—	(2,257)
Proceeds from disposal of short-term investments . . . . .	—	108	2,650
Proceeds from disposal of long-term investments . . . . .	50	—	—
Purchase of intangible assets . . . . .	(66)	(61)	(26)
Interest received . . . . .	36	77	114
<b>Net cash used in investing activities . . . . .</b>	<b>(3,048)</b>	<b>(8,380)</b>	<b>(4,357)</b>
<b>Cash flows from financing activities:</b>			
Cash collected for shares issued . . . . .	—	—	973
Proceeds from short-term borrowings . . . . .	3,521	1,000	—
Proceeds from long-term borrowings . . . . .	1,520	—	—
Proceeds from five-year RUR bonds, series 1 . . . . .	2,855	2,974	—
Dividends paid . . . . .	(268)	(153)	(144)
Repayments of finance lease obligations . . . . .	(337)	(239)	(25)
Principal payments on short-term borrowings . . . . .	(3,378)	(1,000)	—
Principal payments on five-year RUR bonds, series 1 . . . . .	(2,902)	—	—
<b>Net cash provided by financing activities . . . . .</b>	<b>1,011</b>	<b>2,582</b>	<b>804</b>
<b>Net increase/(decrease) in cash and cash equivalents . . . . .</b>	<b>131</b>	<b>(934)</b>	<b>158</b>
<b>Cash and cash equivalents at beginning of the year . . . . .</b>	<b>453</b>	<b>1,352</b>	<b>1,232</b>
Foreign exchange (loss)/gain on cash and cash equivalents . . . . .	(135)	35	(38)
<b>Net cash and cash equivalents at end of the year . . . . .</b>	<b>449</b>	<b>453</b>	<b>1,352</b>

P. V. Baskakov  
General Director

K. S. Kalmykov  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007**

	<u>Share capital</u>	<u>Reserve fund</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	(Amounts in millions of Russian Roubles)				
<b>Balance at 1 January 2007</b> . . . . .	<b>13,895</b>	<b>—</b>	<b>(2,255)</b>	<b>1,241</b>	<b>12,881</b>
Profit and comprehensive income for the year . . . . .	—	—	—	1,934	1,934
<b>Total comprehensive income for the year</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,934</b>	<b>1,934</b>
Dividends . . . . .	—	—	—	(144)	(144)
Transfer to reserve fund . . . . .	—	72	—	(72)	—
<b>Balance at 31 December 2007</b> . . . . .	<b>13,895</b>	<b>72</b>	<b>(2,255)</b>	<b>2,959</b>	<b>14,671</b>
Profit and comprehensive income for the year . . . . .	—	—	—	3,570	3,570
<b>Total comprehensive income for the year</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,570</b>	<b>3,570</b>
Dividends . . . . .	—	—	—	(153)	(153)
Transfer to reserve fund . . . . .	—	77	—	(77)	—
Contribution (Note 15) . . . . .	—	—	34	—	34
<b>Balance at 31 December 2008</b> . . . . .	<b>13,895</b>	<b>149</b>	<b>(2,221)</b>	<b>6,299</b>	<b>18,122</b>
Profit and comprehensive income for the year . . . . .	—	—	—	589	589
<b>Total comprehensive income for the year</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>589</b>	<b>589</b>
Dividends . . . . .	—	—	—	(268)	(268)
Transfer to reserve fund . . . . .	—	134	—	(134)	—
<b>Balance at 31 December 2009</b> . . . . .	<b>13,895</b>	<b>283</b>	<b>(2,221)</b>	<b>6,486</b>	<b>18,443</b>

\_\_\_\_\_  
**P. V. Baskakov**  
General Director

\_\_\_\_\_  
**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of these consolidated financial statements.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007  
(Amounts in millions of Russian Roubles)**

**1. NATURE OF THE BUSINESS**

OJSC “TransContainer” (hereinafter the “Company” or TransContainer) was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006. The Company was formed as a result of a spin-off by OJSC “Russian Railways” (“RZD”), which is 100% owned by the Russian Federation, of its activities and certain assets and liabilities related to container transportation into a separate legal entity. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

In connection with this spin-off RZD contributed to the share capital of the net assets with a carrying value of approximately RUB 11,640 million comprising primarily containers, flatcars, buildings and construction. Furthermore, certain employees previously employed by RZD were hired by the Company. The difference between the nominal value of the shares issued to RZD in this transaction and the value of the net assets contributed has been reflected within equity.

TransContainer’s principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 46 container terminals along the railway network in Russia. As of 31 December 2009 the Company operated 19 branches located in the Russian Federation. The Company’s registered address is 12, Novoryazanskaya Street, Moscow, 107228, Russian Federation, and the head office is located at 15A, Kalanchevskaya Street, Moscow, 107174, Russian Federation.

The Company has ownership in the following entities:

<u>Name of Entity</u>	<u>Type</u>	<u>Country</u>	<u>Activity</u>	<u>% interest held</u>		
				<u>2009</u>	<u>2008</u>	<u>2007</u>
Oy ContainerTrans Scandinavia . . . .	Joint venture	Finland	Container shipments	50	50	50
JSC TransContainer-Slovakia . . . . .	Subsidiary	Slovakia	Container shipments	100	—	—

In June 2009 the Company established a 100% subsidiary, JSC “TransContainer-Slovakia”. It was created to handle container shipments between Slovakia and Russia and to manage leased terminal “Dobra” located in Kosice, Slovak Republic.

The consolidated financial statements of OJSC “TransContainer”, its subsidiary and its joint venture as of 31 December 2009, 2008 and 2007 and for the years then ended were authorized for issue by the General Director of the Company on 22 October 2010.

**2. PRESENTATION OF FINANCIAL STATEMENTS**

**Statement of compliance** — These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

**Basis of preparation** — These consolidated financial statements are prepared on the basis of standalone financial statements of the Company, its subsidiary and joint venture (together referred to as the “Group”). The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered.

The consolidated financial statements have been prepared under historical cost convention, except for the effects of assets acquired and liabilities assumed at the formation of the Company.

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

The consolidated financial statements are presented in millions of Russian Roubles (“RUR”), except where specifically noted otherwise.

**Going concern** — These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

liabilities in the normal course of business. As at 31 December 2009 the Group's current liabilities exceeded its current assets by RUR 2,580 million. The Group's current liabilities as of 31 December 2009 included Rouble bonds issued by the Company with a carrying value of RUR 3,153 million which were classified as current due to the existence of put option given to the bondholders exercisable in March 2010. As disclosed in Note 29, the Company bought back the bonds from the existing bondholders that decided to exercise their put option and sold them back to the market on the same day. After this transaction the bonds are no longer subject to a put option and therefore resulted in a reduction of the current liabilities by approximately RUR 3,153 million, and a corresponding increase in the Group's working capital position. The Group continues to monitor its existing liquidity needs on an on-going basis and at 30 June 2010 the Group's current assets exceed current liabilities by RUR 382 million.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

**Consolidation** — The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December each year. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceased.

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

**Interests in joint ventures** — A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The Company's interest in a jointly controlled entity is recognized using proportional consolidation whereby the Company's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity.

**Foreign currency translation** — Russian Rouble is the functional currency of the Group and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the reporting date are translated into the functional currency at the year-end exchange rate. Exchange differences arising from such translation are included into the consolidated profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Russian Rouble at foreign exchange rates ruling at the dates the fair value was determined.

**Property, plant and equipment** — Property, plant and equipment are recorded at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.



**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Assets under construction***

Capital expenditures comprise costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction as well as costs of purchase of other assets that require installation or preparation for their use. Advance payments made to acquire items of property, plant and equipment are shown separately on the consolidated statement of financial position and presented as non-current assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Capital expenditures are reviewed regularly to determine whether its carrying value is fairly stated.

***Leased assets***

Capitalized leased assets and operating leasehold improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

***Subsequent costs***

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognized in the consolidated profit or loss as an expense as incurred.

***Depreciation***

Depreciation is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Owned land plots are not depreciated.

The estimated useful economic lives for property, plant and equipment are as follows:

	<b>Number of years</b>
Buildings . . . . .	20-80
Constructions . . . . .	10-45
Containers . . . . .	10-15
Flatcars . . . . .	28-32
Cranes and loaders . . . . .	5-15
Vehicles . . . . .	3-10
Other equipment . . . . .	2-25

The assets' useful lives and methods are reviewed and adjusted as appropriate, at each financial year-end.

***Gain or loss on disposal***

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

***Intangible assets*** — Intangible assets that are acquired by the Group represent mainly purchased software and licenses and are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use. The estimated useful lives for existing assets range from 3 to 5 years.

Useful lives and amortization methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

***Impairment of non-current assets*** — At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

**Financial assets** — Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As at the reporting date the Group had financial assets classified as loans and receivables only.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

**Impairment of financial assets** — Financial assets are assessed for indicators of impairment at each reporting sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment loss recognized 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 financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account (provision for impairment of receivables).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Effective interest method** — The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or, where appropriate, a shorter period, to the net carrying amount of initial recognition.

**Inventories** — Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

**Cash and cash equivalents** — Cash and cash equivalents comprise cash on hand, balances with banks and short-term interest-bearing deposits with original maturities of not more than three months.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Employee benefits** — Remuneration to employees in respect of services rendered during the reporting period is recognized as an expense in that reporting period.

**Defined benefit plans**

The Group operates two partially funded defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated profit or loss, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses are recognized as income or expense in full as they arise.

In addition, the Group provides certain other retirement and post retirement benefits to its employees. These benefits are not funded.

Upon introduction of a new plan or improvement of an existing plan past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed.

**Defined contribution plans**

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The Group's contributions relating to the defined contribution plan are charged to the consolidated profit or loss in the year to which they relate.

**State Plan**

In addition, the Group is legally obligated to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Pension Fund of the Russian Federation relating to defined contribution plans are charged to the consolidated profit or loss in the year to which they relate.

Contribution to the Pension Fund of the Russian Federation together with other social contributions are included within a unified social tax (“UST”), which is calculated by the application of a regressive rate from 26% to 2% to the annual gross remuneration of each employee. UST is allocated to three social funds (including the Pension Fund of the Russian Federation), where the rate of contributions to the Pension Fund of the Russian Federation varies from 20% to 2%, respectively, depending on the annual gross salary of each employee.

**Value added tax** — Output value added tax (“VAT”) related to revenue is payable to tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

**Accounts payable and other financial liabilities** — Accounts payable and other financial liabilities are initially recognized at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortized cost, using the effective interest method, with interest expense recognized on an effective yield basis. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

**Provisions** — Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

**Revenue recognition** — Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue from sales of inventories is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

***Rail-based container shipping services***

Rail-based transportation services provided by the Group primarily include arranging the transportation of its own and third-party containers by rail by means of provision of flatcars and/or containers and leasing of flatcars and containers to third parties. Revenue from these services is recognized in the accounting period in which the services are rendered, net of charges for third-party services. Revenue from operating lease of rolling stock is recognized on a straight-line basis over the term of operating lease agreements.

***Integrated logistics services***

Integrated logistics services are integrated service packages that include basic container shipping, handling at container terminals, truck deliveries, third-party transportation services, freight forwarding and logistic services rendered to customers under through-rate contracts at a single “through-rate”. Integrated logistics services revenue is a combination of revenues relating to various services provided under through-rate contracts, which, when provided under separate contracts, are shown in corresponding separate revenues line item. Integrated logistics services revenue is recognized in the accounting period in which the services are rendered.

***Terminal services and agency fees***

Terminal services primarily include container handling, such as loading and unloading operations, container storage and other terminal operations. The Group acts on behalf of RZD in providing mandatory railroad services for all railway users at the Group’s terminals, designated as the “sites of common use” by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commission. Commission fees collected from RZD for intermediary activities and revenue from other terminal operations are recognized in the accounting period in which the services are provided.

***Bonded warehousing services***

Bonded warehousing services are services related to storage of customers’ containers in separate warehouses located at container terminals while pending customs clearance or payment of other applicable duties. Revenue from these services is recognized on the basis of the number of days during which the services are rendered.

***Truck deliveries***

Truck delivery services include transporting containers between the container terminals and client-designated sites using Group’s own truck fleet as well as third parties’ trucks. Revenue from truck deliveries is recognized in the accounting period in which the services are rendered.

***Freight forwarding and logistics services***

The Group provides freight forwarding and logistics services, such as:

- (i) Preparation and ensuring of correctness of shipping documentation required for the delivery process to be effected;

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

- (ii) Customs clearance brokerage by providing clients with customs documentation and services for Russian customs clearance;
- (iii) Cargo tracking services by providing clients with information about cargo location;
- (iv) Route optimization and planning; and
- (v) Cargo security services, including provision of insurance, special labels for hazardous cargo, special terms for transportation of hazardous cargo, and ensuring proper documentation for the transported cargo.

Revenue from freight forwarding and logistics services is recognized in the accounting period in which the services are rendered.

***Dividend and interest income***

- (i) Dividends from investments are recognized in the consolidated profit or loss when the shareholder's right to receive payment has been established;
- (ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

***Leases*** — The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

***Operating lease payments***

Payments made under operating leases are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in the consolidated profit or loss as an integral part of the total lease expense.

***Finance lease payments***

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

***Sale and leaseback***

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

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

***Borrowing costs*** — For the periods beginning 1 January 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred. For periods prior to 1 January 2009 all borrowing costs were expensed in the period in which they were incurred. For details of change in accounting policy see Note 4.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Income tax** — Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liabilities are settled or the assets realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are not discounted.

**Share capital and other reserves** — Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. The difference between the value of consideration received and the par value of shares issued is recognized as other reserves. Similarly, any differences arising on transactions with shareholders which are treated as equity transactions are adjusted directly against other reserves.

**Earnings per share** — Earnings per share are calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. The Group does not have any potentially dilutive equity instruments.

**Dividends** — Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

**Contractual commitments** — Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the Notes to the consolidated financial statements.

**Contingencies** — Contingent liabilities are not recognized in the financial statements unless they arise as a result of a business combination. Contingences attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

#### **4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

##### ***IFRS and IFRIC interpretations adopted in the current year***

In the current year, the Group has adopted all new and revised standards and interpretations issued by International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2009. The effect from their adoption on measurement and presentation of disclosures in the financial statements of the Group are described in more details below:

- IAS 1 “Presentation of financial statements” (amended) — separates owner and non-owner changes in equity. Based on revised standard the statement of changes in equity includes only details of transactions with owners,

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. The Group opted to present one single statement of comprehensive income.

- IAS 23 “Borrowing costs” (revised) — requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. 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. Accordingly, no changes have been made to the borrowing costs incurred prior to this date.
- IFRS 7 “Financial instruments: disclosure” (amended) — introduces a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments do not have impact on the financial position or performance of the Group. The disclosures were not significantly impacted by the amendments.
- IFRS 8 “Operating segments” — requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the General Director of the Company. The Group has one operating segment: container shipping and other related services.

***IFRS and IFRIC interpretations not yet effective***

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods and which the entity has not early adopted:

<u>Standards and Interpretations</u>	<u>Effective for annual periods beginning on or after</u>
IAS 24 “Related party disclosures” (revised) . . . . .	1 January 2011
IAS 27 “Consolidated and separate financial statements” (amended) . . . . .	1 July 2009
IAS 28 “Investments in associates” (amended due to revision of IFRS 3). . . . .	1 July 2009
IAS 31 “Interests in joint ventures” (amended due to revision of IFRS 3) . . . . .	1 July 2009
IAS 32 “Financial instruments: presentation” (amended) . . . . .	1 February 2010
IAS 39 “Financial instruments: recognition and measurement” (amended) . . . . .	1 July 2009
IFRS 2 “Share-based payment” (amended) . . . . .	1 January 2010
IFRS 3 “Business combinations” (revised) . . . . .	1 July 2009
IFRS 7 “Financial instruments: disclosures (amended). . . . .	1 July 2011
IFRS 9 “Financial instruments” . . . . .	1 January 2013
IFRIC 14 “IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction” (amended) . . . . .	1 January 2011
IFRIC 17 “Distributions of non-cash assets to owners” . . . . .	1 July 2009
IFRIC 19 “Extinguishing financial liabilities with equity instruments” . . . . .	1 July 2010

Also a number of standards and interpretations were amended with Annual Improvements to IFRS issued in April 2009 and May 2010. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards. These amendments are mandatory for adoption in the annual periods beginning on or after 1 January 2010.

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. The new and revised standards which are

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

likely to have an effect on measurement, presentation of disclosure in the financial statements of the Group are described in more detail below:

- IAS 24 “Related party disclosures” (revised) — simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.
- IFRS 3 “Business combinations” (revised) — is 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 purpose of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRS, as appropriate, rather than adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone.
- IFRS 9 “Financial instruments” — introduces new requirements for classifying and measuring financial assets.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, 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.

***Provision for impairment of receivables*** — Management maintains a provision for impairment of short-term receivables in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2009, 2008 and 2007, provision for impairment of receivables was recognized in the amount of RUR 62 million, RUR 87 million and RUR 47 million, respectively (see Note 9).

***Depreciable lives of property, plant and equipment*** — The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting policies, changes in accounting estimates and errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period. Beginning from 1 January 2009 the management applies revised useful lives for certain items of property plant and equipment. The effect of changes in estimates for 2009 was RUR 88 million (Note 7) .

***Impairment of property, plant and equipment*** — The Group reviews at each reporting date the carrying amounts of its property, plant and equipment to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset’s recoverable amount to ensure that it is not less than its carrying value. If the asset’s fair value is not readily determinable or is less than asset’s carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation.



**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Current year review of impairment of property, plant and equipment***

The financial markets, both globally and in Russia, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008, when it began to impact the Russian economy. In connection with the accompanying economic downturn and emergence of a number of indicators that the Group’s fixed assets may be impaired, the Group has carried out a review of recoverable amount of its fixed assets as at 31 December 2009 and 2008.

***Key assumptions***

The following key assumptions were made in carrying out the review:

- The Group represents one cash generating unit;
- The Group estimated its future cash flows on a nominal basis for the period of five years, after which it assumed a constant amount of cash flow for the remaining average useful life of the existing assets.
- The discount rate used in the calculations was equal to 17.4% (2008: 16.3%), which is an estimate of the Group’s weighted average cost of capital.

***Results of the review***

- As a result of the review no impairment loss was recognized in the consolidated financial statements, except for certain individually impaired assets as disclosed in Note 7;
- The review revealed no significant sensitivity to decrease in estimated future cash flows or increase in the discount rate.

***Compliance with tax legislation*** — Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. 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. Management believes that it has accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities as management’s best estimate of the probable outflow of resources which will be required to settle such liabilities. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

***Pension obligations*** — The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, expected rate of return on plan assets, etc.). In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (see Note 16).

**6. CRITICAL ACCOUNTING JUDGEMENTS**

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements:

***Accounting for leases*** — A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

**Investment into LLC *Finans-Proekt*** — In December 2007 the Company acquired interest-bearing (8% p.a.) promissory notes issued by LLC “Finans-Proekt”, a related party, for a total consideration of RUR 280 million. The notes are repayable on demand after an initial fixed maturity period expired on 14 March 2008. The promissory notes are guaranteed by OJSC “TransCreditBank”, a related party. Using cash proceeds received from the selling of promissory notes, LLC “Finans-Proekt” acquired 100% ownership in LLC “Zapadny Port”, a company which owns and operates a port located on the bank of Don river in the vicinity of Rostov-na-Donu. As of 31 December 2009 and 2008 the Group rented substantial part of the port’s property under short-term rent agreements.

As of 31 December 2008 the Group intended to subsequently acquire the port business or part of it from LLC “Finans-Proekt” in exchange for its promissory notes that the Group holds. Nevertheless, the agreement to acquire the assets of LLC “Zapadny Port” was not contractual. Analyzing the requirements of IFRS 3 “Business combinations” and IAS 27 “Consolidated and separate financial statements” management concluded that as of the reporting date the Group did not have the power to control the financial and operating policies of LLC “Zapadny Port” so as to obtain economic benefits from its activities. Investment in the promissory notes of LLC “Finans-Proekt” was accounted for at amortized cost, less impairment (if any). The carrying value of this investment, shown as long-term investments on the Group’s consolidated balance sheet as of 31 December 2008, is equal to RUR 303 million, including accumulated interest (Note 8).

In March 2009 the notes became non-interest bearing. In October 2009 the Group has redeemed notes with total face value of RUR 50 million plus accumulated interest in the amount of RUR 5 million. The Group plans to settle additional RUR 50 million plus accumulated interest during 2010. Accordingly, this amount was reclassified as short-term investments (Note 11).

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**7. PROPERTY, PLANT AND EQUIPMENT**

	Land, buildings and constructions	Containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in-progress	Total
<b>Cost</b>						
<b>1 January 2007</b> .....	<b>1,633</b>	<b>10,467</b>	<b>121</b>	<b>154</b>	<b>99</b>	<b>12,474</b>
Additions .....	793	1,366	1,001	714	1,154	5,028
Transfers .....	16	105	17	83	(221)	—
Additions through contribution in kind .....	—	1,394	—	—	—	1,394
Disposals .....	—	(677)	(1)	(2)	—	(680)
<b>31 December 2007</b> .....	<b>2,442</b>	<b>12,655</b>	<b>1,138</b>	<b>949</b>	<b>1,032</b>	<b>18,216</b>
Additions .....	66	6,061	63	593	1,672	8,455
Transfers .....	1,598	188	5	59	(1,850)	—
Disposals .....	(8)	(81)	(22)	(8)	—	(119)
<b>31 December 2008</b> .....	<b>4,098</b>	<b>18,823</b>	<b>1,184</b>	<b>1,593</b>	<b>854</b>	<b>26,552</b>
Additions .....	8	2,657	—	142	523	3,330
Transfers .....	167	—	—	41	(208)	—
Disposals .....	(46)	(241)	(11)	(14)	(2)	(314)
<b>31 December 2009</b> .....	<b>4,227</b>	<b>21,239</b>	<b>1,173</b>	<b>1,762</b>	<b>1,167</b>	<b>29,568</b>
<b>Accumulated depreciation</b>						
<b>1 January 2007</b> .....	<b>(146)</b>	<b>(554)</b>	<b>(13)</b>	<b>(24)</b>	—	<b>(737)</b>
Depreciation charge .....	(307)	(1,135)	(150)	(125)	—	(1,717)
Impairment .....	—	(1)	(2)	3	—	—
Disposals .....	—	37	—	1	—	38
<b>31 December 2007</b> .....	<b>(453)</b>	<b>(1,653)</b>	<b>(165)</b>	<b>(145)</b>	—	<b>(2,416)</b>
Depreciation charge .....	(303)	(1,381)	(191)	(256)	—	(2,131)
Impairment .....	—	1	(8)	(2)	—	(9)
Disposals .....	3	51	6	3	—	63
<b>31 December 2008</b> .....	<b>(753)</b>	<b>(2,982)</b>	<b>(358)</b>	<b>(400)</b>	—	<b>(4,493)</b>
Depreciation charge .....	(202)	(1,517)	(159)	(331)	—	(2,209)
Impairment .....	(7)	—	(9)	—	—	(16)
Disposals .....	18	208	9	12	—	247
<b>31 December 2009</b> .....	<b>(944)</b>	<b>(4,291)</b>	<b>(517)</b>	<b>(719)</b>	—	<b>(6,471)</b>
<b>Net book value</b>						
<b>31 December 2007</b> .....	<b>1,989</b>	<b>11,002</b>	<b>973</b>	<b>804</b>	<b>1,032</b>	<b>15,800</b>
<b>31 December 2008</b> .....	<b>3,345</b>	<b>15,841</b>	<b>826</b>	<b>1,193</b>	<b>854</b>	<b>22,059</b>
<b>31 December 2009</b> .....	<b>3,283</b>	<b>16,948</b>	<b>656</b>	<b>1,043</b>	<b>1,167</b>	<b>23,097</b>

Included in land, buildings and constructions are the amounts of RUR 110 million, RUR 86 million and RUR 19 million, which represent the value of land plots owned by the Group as of 31 December 2009, 2008 and 2007, respectively. During the year ended 31 December 2008 the Group purchased plots of land in Vorotynsk (Kaluga region) for container terminal construction and in the Kuibyshevsky branch (Samara region) for office building construction, for the total amount of RUR 66 million. During the year ended 31 December 2009 the Group purchased land area from OJSC “RZD” in the Irkutsk Region for a total amount of RUR 24 million in order to expand the container terminals (Note 25).

As of 1 January 2009 the Group increased the estimated useful lives of property, plant and equipment at Zabaykalsk container terminal in Chita Region, which became operational in 2008. As a result depreciation charge for the year 2009 was reduced by RUR 88 million when compared with that, which would have been charged had the estimated useful life of these assets not changed.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Vehicles and other equipment category includes motor transport used for terminal services and truck deliveries in the amount of RUR 837 million, RUR 835 million and RUR 510 million as of 31 December 2009, 2008 and 2007, respectively.

During the year ended 31 December 2009 the Group sold part of its vehicles with net book value of RUR 296 million to “Gorodskaya Innovacionno-Lizingovaya Kompaniya” under a sale and finance leaseback agreement (Note 15). Accordingly, the Group continued to recognize these vehicles at their previous carrying values.

Construction in-progress as of 31 December 2007 primarily consisted of the following:

- Capital expenditure incurred in relation to construction of new container terminals in Zabaikalsk, Novosibirsk and Nizhniy Novgorod amounting to RUR 618 million, RUR 114 million and RUR 14 million, respectively;
- Capital expenditure related to construction of the Company’s new offices of RUR 175 million.

During 2008 the Group continued the construction of container terminals in Novosibirsk and Nizhniy Novgorod, and incurred additional capital expenditures relating to these terminals for the total amount RUR 347 million. During the last quarter of 2008 the Group has completed construction of container terminal in Zabaikalsk and put it into operation, with the book value of RUR 1,284 million. In addition, several buildings were put into operation in Sverdlovskiy, Kuibyshevskiy, Yugo-Vostochniy, and Likhobory branches, for the total amount of RUR 281 million during 2008.

During 2009 the Group temporarily suspended completing the construction works for the Novosibirsk and Nizhniy Novgorod container terminals. However, additional equipment for the terminals was purchased for the amount of RUR 321 million. In addition the Group incurred capital expenditures related to the reconstruction of Vorotynsk container terminal (Kaluga region) for the amount of RUR 35 million, and outfitting of the Company’s new office building in Moscow in the amount of RUR 172 million.

Construction in-progress as of 31 December 2009 primarily consisted of the following:

- Capital expenditure incurred in relation to construction of new container terminals in Novosibirsk, Nizhniy Novgorod and Moscow Region amounting to RUR 298 million, RUR 286 million and RUR 48 million, respectively;
- Maintenance and reconstruction of container terminals in Yekaterinburg, Khabarovsk and Saratov for the amount of RUR 114 million, RUR 30 million and RUR 15 million, respectively;
- Reconstruction of repair depot in Lipetsk region for the amount of RUR 24 million;
- Capital expenditure related to construction of the Company’s new offices of RUR 172 million.

Leased assets as of 31 December 2009, 2008 and 2007 where the Group is a lessee under finance leases, comprised the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cost . . . . .	2,753	1,699	413
Accumulated depreciation . . . . .	<u>(145)</u>	<u>(63)</u>	<u>(7)</u>
<b>Net book value . . . . .</b>	<b><u>2,608</u></b>	<b><u>1,636</u></b>	<b><u>406</u></b>

Refer to Note 15 for further details regarding finance leases.

***Advances for acquisition of non-current assets***

As of 31 December 2009 and 2008 advances for acquisition of non-current assets consisted of amounts paid for acquisition of an office building in Moscow (RUR 1,642 million), acquisition of rolling stock (RUR 574 million and RUR 542 million, respectively) and acquisition of other non-current assets (RUR 92 million and RUR 92 million, respectively). As of December 2007 advances for acquisition of non-current assets consisted of amounts paid for acquisition of flatcars and containers (RUR 525 million) and other non-current assets (RUR 211 million).

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**8. LONG-TERM INVESTMENTS**

	<u>Effective interest rate</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Promissory notes (Note 6) . . . . .	0% (2008, 2007: 8%)	197	303	280
Other long-term investments . . . . .	—	<u>9</u>	<u>1</u>	<u>—</u>
<b>Total long-term investments . . . . .</b>		<b><u>206</u></b>	<b><u>304</u></b>	<b><u>280</u></b>

**9. TRADE AND OTHER RECEIVABLES**

	<u>Outstanding balance, gross</u>	<u>Provision for impairment</u>	<u>Outstanding balance, net</u>
<b>31 December 2009</b>			
Trade receivables . . . . .	1,114	(56)	1,058
Other receivables . . . . .	<u>889</u>	<u>(6)</u>	<u>883</u>
<b>Total . . . . .</b>	<b><u>2,003</u></b>	<b><u>(62)</u></b>	<b><u>1,941</u></b>
<b>31 December 2008</b>			
Trade receivables . . . . .	1,655	(87)	1,568
Other receivables . . . . .	<u>73</u>	<u>—</u>	<u>73</u>
<b>Total . . . . .</b>	<b><u>1,728</u></b>	<b><u>(87)</u></b>	<b><u>1,641</u></b>
<b>31 December 2007</b>			
Trade receivables . . . . .	1,134	(39)	1,095
Other receivables . . . . .	<u>77</u>	<u>(8)</u>	<u>69</u>
<b>Total . . . . .</b>	<b><u>1,211</u></b>	<b><u>(47)</u></b>	<b><u>1,164</u></b>

As at 31 December 2009 other receivables include RUR 477 million receivable from CJSC “Gorodskaya Innovacionno-Lizingovaya Kompaniya” under a sale and leaseback agreement (Note 15) and RUR 248 million receivable from LLC “Novorossiysky Mazutny Terminal” for a sale of a plot of land.

The average credit period on the Group’s sales (other than for sales carried out on a prepayment basis) is 35 days.

Included in the Group’s total trade and other receivables are debtors with a carrying amount of RUR 346 million, RUR 211 million and RUR 123 million as of 31 December 2009, 2008 and 2007, respectively, which are past due at the respective reporting date and which the Group considers to be recoverable (i.e. not impaired). The Group does not hold any collateral over these outstanding balances.

The ageing of past due but not impaired trade and other receivables is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
35-90 days . . . . .	26	62	48
90-180 days . . . . .	151	42	37
more than 180 days . . . . .	<u>169</u>	<u>107</u>	<u>38</u>
<b>Total past due but not impaired . . . . .</b>	<b><u>346</u></b>	<b><u>211</u></b>	<b><u>123</u></b>

The movement in the provision for impairment in respect of trade and other receivables is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Balance at beginning of the year . . . . .</b>	<b>(87)</b>	<b>(47)</b>	<b>(19)</b>
Additional provision, recognized in the current year . . . . .	(36)	(87)	(47)
Release of provision . . . . .	<u>61</u>	<u>47</u>	<u>19</u>
<b>Balance at end of the year . . . . .</b>	<b><u>(62)</u></b>	<b><u>(87)</u></b>	<b><u>(47)</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**10. PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
VAT receivable . . . . .	681	1,107	981
Advances to suppliers . . . . .	1,450	759	351
Other current assets . . . . .	<u>132</u>	<u>91</u>	<u>52</u>
<b>Total prepayments and other current assets . . . . .</b>	<b><u>2,263</u></b>	<b><u>1,957</u></b>	<b><u>1,384</u></b>

Advances to suppliers consist of payments made for third party transportation services. During 2009 the Group reached an agreement with RZD whereby RUR 776 million was reclassified from trade receivables to advances.

**11. SHORT-TERM INVESTMENTS**

	<u>Effective interest rate</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Promissory notes (Note 6) . . . . .	—	55	—	—
Bank deposits . . . . .	8%-9%	—	—	109
Loans . . . . .	—	<u>88</u>	—	—
<b>Total short-term investments . . . . .</b>		<b><u>143</u></b>	<b><u>—</u></b>	<b><u>109</u></b>

An interest free six-month EURO-denominated loan was issued to Far East Land Bridge Ltd.

**12. CASH AND CASH EQUIVALENTS**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Russian Rouble denominated cash in hand and balances with banks . . . . .	387	304	176
Foreign currency denominated balances with banks . . . . .	62	149	29
Russian Rouble denominated bank deposits . . . . .	—	—	1,000
US Dollar denominated bank deposits . . . . .	<u>—</u>	<u>—</u>	<u>147</u>
<b>Total cash and cash equivalents . . . . .</b>	<b><u>449</u></b>	<b><u>453</u></b>	<b><u>1,352</u></b>

The terms of Russian Rouble denominated short-term bank deposits vary from nine days to three months depending on the immediate cash requirements of the Company. During 2007 the deposits attracted interest at a rate of 5% per annum. All Russian rouble denominated deposits were placed with JSC TransCreditBank, a related party (refer to Note 25). A two week US Dollar denominated short-term bank deposit attracted interest at a rate of 6% per annum.

**13. EQUITY**

*Share Capital*

Authorized and issued capital as of 31 December 2009, 2008 and 2007 comprises:

	<u>Number of outstanding ordinary shares</u>	<u>Value</u>
Ordinary shares (par value: RUR 1,000) . . . . .	13,894,778	13,895

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The share capital was fully paid during 2007.

The Company shareholder structure as of 31 December 2009, 2008 and 2007 was as follows:

	<b>Number of outstanding ordinary shares</b>	<b>Percentage of Ownership</b>
<b>31 December 2009 and 2008</b>		
OJSC “RZD” . . . . .	11,810,561	85.00000%
CJSC CB “Citibank” (nominal shareholder) . . . . .	1,284,574	9.24501%
CJSC “DCC” (nominal shareholder) . . . . .	799,642	5.75498%
OJSC “Baminvest” . . . . .	1	0.00001%
	<b>13,894,778</b>	<b>100%</b>
<b>31 December 2007</b>		
OJSC “RZD” . . . . .	13,894,777	99.99999%
OJSC “Baminvest” . . . . .	1	0.00001%
	<b>13,894,778</b>	<b>100%</b>

***Other Reserves***

The Group’s shares were paid through contribution by its parent, RZD, of net assets related to container transportation activities. Such net assets consisted primarily of cash, property, plant and equipment, long-term employee benefit liabilities and the related deferred tax liabilities. Further, under the existing tax rules, the in-kind contribution of property, plant and equipment made by the shareholder to the share capital gives the Group the right to claim VAT related to such property, plant and equipment for reimbursement from the tax authorities. The amount of such VAT was RUR 104 million. This amount was included in the determination of the total value of the consideration paid by RZD for the Group’s shares.

The difference between the value of net assets contributed and the nominal value of the shares issued by the Company of RUR 2,255 million was recorded as other reserves.

***Retained Earnings, Dividends***

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company’s statutory financial statements. TransContainer had RUR 4,461 million, RUR 4,945 million and RUR 2,695 million of undistributed and unreserved earnings as of 31 December 2009, 2008 and 2007, respectively.

In respect of 2008 dividends of RUR 19.29 per share were approved at the annual shareholders’ meeting on 23 June 2009. As of 31 December 2009 the dividends have been fully paid.

In respect of 2007 dividends of RUR 11.03 per share were approved by and paid to the shareholders during the year ended 31 December 2008.

In respect of 2006 dividends of RUR 10.38 per share were approved by and paid to the shareholders during the year ended 31 December 2007.

***Reserve Fund***

According to its charter, the Company established a reserve fund through allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve fund is limited to 5 percent of the Company’s share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares. As of 31 December 2009, 2008 and 2007 the Company’s reserve fund amounted to RUR 283 million, RUR 149 million and RUR 72 million, respectively.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**14. LONG-TERM DEBT**

RUR-denominated loans with effective interest rates of 12.0% — 12.5% from Alfa Bank were obtained during 2009 to finance acquisition of flatcars. Flatcars with net book value of RUR 1,552 million are pledged as a collateral under this loan agreement. The loans mature in five years and have a fixed interest rate, with interest payable on the 25<sup>th</sup> of each month. The carrying value of the loans as at 31 December 2009 is RUR 1,520 million.

In accordance with the loan terms the Group is subject to certain financial and non-financial covenants, including observance of a Debt/EBITDA ratio, calculated every six months on the basis of annual and interim financial statements. For the purposes of calculation debt includes all short and long term borrowings, finance lease obligations and interest expense for a twelve-month period ended as at the reporting date. EBITDA includes income before interest expense, income tax, depreciation and amortization. In the event of non-compliance with the specified requirements the bank may increase the annual interest rate by 3%. In addition, the bank may require an early repayment of the loans if non-compliance with the financial covenants is not timely remediated.

The Group is also required to observe a minimal amount of quarterly cash turnover with the bank, non-compliance with which may result in fines.

**15. FINANCE LEASE OBLIGATIONS**

	<u>Minimum lease payments</u>			<u>Present value of minimum lease payments</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Due within one year . . . . .	909	392	141	793	357	94
Due after one year but not more than five years . . . . .	<u>1,682</u>	<u>1,242</u>	<u>385</u>	<u>1,115</u>	<u>832</u>	<u>294</u>
	2,591	1,634	526	1,908	1,189	388
Less future finance charges . . . . .	(683)	(445)	(138)	—	—	—
<b>Present value of minimum lease payments . . . . .</b>	<b><u>1,908</u></b>	<b><u>1,189</u></b>	<b><u>388</u></b>	<b><u>1,908</u></b>	<b><u>1,189</u></b>	<b><u>388</u></b>

During 2008 the amount of minimum lease payments under one of the lease agreements has been revised. The difference between the initial minimal lease payments and the revised lease payments for the years ended 31 December 2009 and 2008 has been included in interest expense on finance lease obligations in the amount of RUR 2 million and RUR 1 million, respectively.

*The 2007 leases of flatcars*

During the period ended 31 December 2006 the Group entered into finance lease agreements with a related party to acquire new flatcars with initial value of RUR 605 million. The lease agreements were for a period of 5 years with the effective interest rate varying from 15.85% to 16.91% per annum.

During the year ended 31 December 2007, due to manufacturing defects discovered in the leased flatcars the leases were terminated, and the related assets returned to the manufacturer. At the date of termination the net book value of the flatcars was RUR 595 million and the related lease liability was equal to RUR 544 million. As a result of derecognition of these assets and liabilities and the receipt of compensation of RUR 112 million, which is equal to the total amount of lease payments (including interest) made before the cancellation of the leases, the Group recognized a gain of RUR 61 million included in gain on disposal of property, plant and equipment as part of the Group’s operating expenses.

During the year ended 31 December 2007 the Group entered into new finance lease agreement with the same related party to acquire flatcars with initial value of RUR 360 million (Note 25). The lease agreements are for a period of 5 years with the effective interest rate varying from 14.57% to 14.80% per annum.

*The 2008 finance leases*

During 2008 the Group assumed rights and obligations under three existing lease agreements with CJSC “Sberbank Leasing” (formerly “Russian-German Leasing Company” or Sberbank Leasing), initially concluded between RZD and Sberbank Leasing. Sberbank Leasing is an entity under the same ultimate common control as the Group.



**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The agreements are for lease of:

- Flatcars with net book value (as at the date of transfer of assets) of RUR 1,338 million;
- Flatcars with net book value (as at the date of transfer of assets) of RUR 601 million;
- Containers with net book value (as at the date of transfer of assets) of RUR 140 million.

These transactions have been treated by management as transactions with shareholders. The related finance lease assets and liabilities have been recorded at their carrying value in the books of RZD immediately before their transfer to the Company with any resulting difference adjusted directly against the Group’s equity. The difference between the net carrying value of assets and liabilities assumed under the lease agreements and payments made to RZD to acquire lease rights of RUR 488 million gave rise to a net gain of RUR 34 million, which was included in other reserves.

Assets under the latter two agreements have subsequently been purchased by the Group in 2008, and the corresponding leasing agreements terminated. The effective interest rate for the remaining lease agreement is 16.23%.

***The 2009 finance leases***

During the period ended 31 December 2009 the Group entered in two new finance lease agreements.

The agreements are for lease of:

- Flatcars with the value of RUR 338 million, the lease agreement with Goldline LLC;
- Flatcars with the value of RUR 422 million, the lease agreement with Alfa Leasing LLC.

The lease agreements with Goldline LLC and Alfa Leasing LLC are for the period of 28 months with the effective interest rate of 25% and the total amount of future minimal lease payments of RUR 366 million and RUR 457 million, respectively.

On 31 December 2009 the Group has entered into a sale and leaseback agreement with CJSC “Gorodskaya Innovacionno-Lizingovaya Kompaniya” for a sale and leaseback of the Group’s trucks with a net book value of RUR 296 million. The transaction has resulted in a finance lease, and the Group continued to recognize the assets under the lease agreement at their previous carrying amounts. The excess of sale proceeds over the net book value of the assets in the amount of RUR 109 million has been recognized as deferred income in the consolidated statement of financial position, and will be amortized over the lease term. The lease agreement is for the period of three years with the effective interest rate of 28.3% (including the effect of offsetting the deferred income over the lease term).

All leases are on a fixed repayment basis and denominated in Russian Roubles. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

**16. EMPLOYEE BENEFIT LIABILITY**

The employees of the Company are members of a state-managed pension plan operated by the Russian government. The Group is required to contribute a specified percentage of payroll costs as part of the unified social tax to the Pension Fund of the Russian Federation to fund the benefits.

The Company also provides supplementary defined benefit and defined contribution retirement benefit plans covering substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund “Blagosostoyanie”. Not-for-profit fund “Pochet” provides pensions to the Company’s employees retired before the defined benefit plans provided through the non-state pension fund “Blagosostoyanie” were introduced.

Benefits accrued through pension plan administered by non-state pension fund “Blagosostoyanie” are partially funded, whilst benefits administered by not-for-profit fund “Pochet” are not funded. In addition, the Company provides other retirement and post employment benefits to its employees, which consist of a once per year compensation of transportation costs on long-distance trains, one-time bonus on retirement ranging from one to six monthly salaries and depending of the duration of the service period and some other requirements. These benefits are not funded.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

***Defined contribution plans***

The total amount recognized as an expense in respect of payments to defined contribution plans for the years ended 31 December 2009, 2008 and 2007 consisted of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Pension Fund of the Russian Federation . . . . .	291	310	315
Non-state defined contribution plan “Blagosostoyanie” . . . . .	<u>4</u>	<u>2</u>	<u>1</u>
<b>Total expense for defined contribution plans . . . . .</b>	<b><u>295</u></b>	<b><u>312</u></b>	<b><u>316</u></b>

***Defined benefit plans***

There were 5,481 employees eligible for some part of the supplementary post-employment and post-retirement benefit program of the Group as of 31 December 2009 (2008: 5,905; 2007: 5,460), of which 1,115 employees (2008: 1,088; 2007: 914) were considered active participants. An active participant is a person making contributions to the pension plan at his/her own expense. Such contributions are matched by the Group. In addition, there were 106, 108 and 232 retired employees eligible for the post-retirement benefit program of the Company through not-for-profit fund “Pochet” as of 31 December 2009, 2008 and 2007, respectively.

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2009 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognized in the consolidated profit or loss for the years ended 31 December 2009, 2008 and 2007 in respect of these defined benefit plans, which are included in payroll and related charges, are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current service cost . . . . .	32	17	16
Interest on obligation . . . . .	55	32	25
Expected return on plan assets . . . . .	(2)	(1)	(1)
Actuarial gains recognized in the year . . . . .	(58)	84	54
Amortization of past service cost . . . . .	16	16	15
Introduction of other employee benefits . . . . .	50	—	—
Losses arising on transfer of employees <sup>(i)</sup> . . . . .	<u>12</u>	<u>26</u>	<u>19</u>
<b>Net expense recognized in the consolidated profit or loss . . . . .</b>	<b><u>105</u></b>	<b><u>174</u></b>	<b><u>128</u></b>

(i) The loss arising from transfer of employees represents the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

The amount recognized in the consolidated statement of financial position as of 31 December 2009, 2008 and 2007 in respect of these defined benefit plans is as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Present value of funded defined benefit obligation . . . . .	296	306	248
Fair value of plan assets . . . . .	<u>(32)</u>	<u>(26)</u>	<u>(19)</u>
	264	280	229
Present value of unfunded defined benefit obligation . . . . .	<u>249</u>	<u>223</u>	<u>165</u>
Deficit . . . . .	513	503	394
Unrecognized past service cost . . . . .	<u>(23)</u>	<u>(40)</u>	<u>(55)</u>
<b>Net employee benefit liability . . . . .</b>	<b><u>490</u></b>	<b><u>463</u></b>	<b><u>339</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Movements in the present value of net defined benefit obligation are as follows:

	<u>Total</u>
<b>Net defined benefit obligation as at 1 January 2007</b> . . . . .	<b>240</b>
Net expense recognized in profit or loss . . . . .	128
Contributions . . . . .	(29)
<b>Net defined benefit obligation as at 31 December 2007</b> . . . . .	<b>339</b>
Net expense recognized in profit or loss . . . . .	174
Contributions . . . . .	(50)
<b>Net defined benefit obligation as at 31 December 2008</b> . . . . .	<b>463</b>
Net expense recognized in profit or loss . . . . .	105
Contributions . . . . .	(78)
<b>Net defined benefit obligation as at 31 December 2009</b> . . . . .	<b><u>490</u></b>

Movements in the fair value of defined benefit pension plans are as follows:

<b>Fair value of plan assets as at 1 January 2007</b> . . . . .	<b>8</b>
Expected return on plan assets . . . . .	1
Contributions from the employer . . . . .	29
Assets distributed on settlements . . . . .	1
Benefits paid . . . . .	(20)
<b>Fair value of plan assets as at 31 December 2007</b> . . . . .	<b>19</b>
Expected return on plan assets . . . . .	1
Actuarial loss . . . . .	(1)
Contributions from the employer . . . . .	50
Benefits paid . . . . .	(43)
<b>Fair value of plan assets as at 31 December 2008</b> . . . . .	<b>26</b>
Expected return on plan assets . . . . .	2
Actuarial gains . . . . .	1
Contributions from the employer . . . . .	78
Benefits paid . . . . .	(75)
<b>Fair value of plan assets as at 31 December 2009</b> . . . . .	<b><u>32</u></b>

The major categories of plan assets administered by non-state pension fund “Blagosostoyanie” as a percentage of the fair value of total plan assets as of the reporting date were as follows:

	Share in total plan assets		
	2009	2008	2007
Corporate bonds and stock of Russian legal entities . . . . .	46%	47%	40%
Shares in closed investment funds . . . . .	26%	19%	9%
Bank deposits . . . . .	18%	25%	30%
Sovereign and regional government bonds, including Moscow City Government bonds . . . . .	2%	2%	4%
Promissory notes of Russian legal entities . . . . .	0%	4%	12%
Other . . . . .	8%	3%	5%
	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Discount rate . . . . .	8.8%	9.4%	7.5%
Rate used for calculation of annuity value . . . . .	4%	4%	4%
Average remaining working life, years . . . . .	18.5	19	20
Expected return on plan assets . . . . .	9.0%	10.0%	7.5%
Mortality tables . . . . .	year 2008	year 2005	year 1994

The Group further assumed that salary will increase in the future in line with inflation rate. During 2007 and 2008 the growth of average salary was higher than expected, which led to actuarial losses for those years. During 2009 due to the effects of the economic crisis the growth of average salaries was lower than expected, leading to actuarial gains for the period.

The overall expected rate of return on assets is a weighted average of the expected returns of the various categories of plan assets held. Assessment of the expected returns by management is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was RUR 2 million, RUR 1 million and RUR 1 million for the years ended 31 December 2009, 2008 and 2007, respectively.

**17. TRADE AND OTHER PAYABLES**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Trade payables . . . . .	585	1,105	458
Amounts payable for the acquisition of property, plant and equipment . . . . .	342	788	439
Liabilities to customers . . . . .	<u>2,245</u>	<u>2,164</u>	<u>2,252</u>
<b>Total trade and other payables . . . . .</b>	<b><u>3,172</u></b>	<b><u>4,057</u></b>	<b><u>3,149</u></b>

**18. TAXES OTHER THAN INCOME TAX PAYABLE**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Property tax . . . . .	98	101	79
Unified social tax . . . . .	41	34	44
Personal income tax . . . . .	10	7	13
Other taxes . . . . .	<u>21</u>	<u>3</u>	<u>1</u>
<b>Total taxes other than income tax payable . . . . .</b>	<b><u>170</u></b>	<b><u>145</u></b>	<b><u>137</u></b>

**19. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Settlements with employees . . . . .	133	274	436
Other liabilities . . . . .	<u>51</u>	<u>46</u>	<u>46</u>
<b>Total accrued expenses and other current liabilities . . . . .</b>	<b><u>184</u></b>	<b><u>320</u></b>	<b><u>482</u></b>

Settlements with employees as of 31 December 2009, 2008 and 2007 comprised accrued salaries and bonus of RUR 65 million, RUR 190 million and RUR 378 million, respectively, and the accrual for unused vacation of RUR 68 million, RUR 84 million and RUR 58 million, respectively.

**20. FIVE-YEAR RUR BONDS, SERIES 1**

On 4 March 2008 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 roubles par value. Net proceeds from the issuance, after the deduction of related offering costs, amounted to RUR 2,974 million. The coupon rate of the bonds for the first year is 9.5% per annum, with interest being paid semi-annually. The rate for the remaining period is to be determined by the Group. Bond holders have an option to put their investments to the Group at par value after first and second year. Due to the existence of such option these

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

borrowings are presented as current liabilities at each presented reporting date. The bonds have been guaranteed by LLC “Trans-Invest”, a related party of the Group.

On 13 March 2009 majority of the bondholders requested redemption of their bonds in accordance with the put option. The Group redeemed the bonds in the amount of RUR 2,902 million and re-issued them on the same day for RUR 2,855 million, net of offering costs, which resulted in a net change in borrowings of RUR 47 million. The coupon rate for the second year was set at 16.5% per annum, with interest being paid semi-annually.

As of 31 December 2009 and 2008 the carrying value of the bonds equals RUR 3,153 million and RUR 3,088 million, respectively, and the amount of accrued coupon is RUR 164 million and RUR 93 million, respectively.

**21. SEGMENT INFORMATION**

The chief operating decision-maker has been identified as the General Director of TransContainer. The General Director reviews the Group’s internal reporting in order to assess performance and allocate resources. Currently the General Director evaluates the business from a single perspective as one unit providing container shipping and other related services. While single groups of assets, such as containers, flatcars, container terminals, warehouses, and trucks may be able to generate some measure of revenue independently of each other, the Group can only sustain its competitive advantage and required profitability when all groups of assets function simultaneously, providing to the customers a complete package of shipping services. For this reason the General Director and the Group’s management considers the entire Group to be a single operating and reportable segment.

Information on the basis of which the General Director assesses the Group’s performance is revenue by category and load factor, which is measured in terms of transported TEUs (twenty foot equivalent units) for both containers and flatcars, and fleet turnover — the amount of times the entire fleet of containers or flatcars on average makes a loaded trip during a year.

Description of each of the type of revenue is disclosed in the Group’s accounting policy in Note 3.

*Analysis of revenue by category*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Rail-based container shipping services . . . . .	6,573	9,686	8,451
Integrated logistics services . . . . .	5,347	4,769	196
Terminal services and agency fees . . . . .	1,678	2,369	2,124
Truck deliveries . . . . .	1,559	1,662	1,183
Freight forwarding and logistics services . . . . .	880	1,604	1,205
Bonded warehousing services . . . . .	265	299	132
Other . . . . .	98	105	84
<b>Total revenue . . . . .</b>	<b><u>16,400</u></b>	<b><u>20,494</u></b>	<b><u>13,375</u></b>

*Analysis of revenue by location of customer*

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Revenue from external customers</b>			
Russia . . . . .	15,321	18,405	13,025
Germany . . . . .	528	574	—
China . . . . .	135	221	44
Finland . . . . .	133	211	28
Korea . . . . .	73	910	165
Other . . . . .	210	173	113
<b>Total revenue . . . . .</b>	<b><u>16,400</u></b>	<b><u>20,494</u></b>	<b><u>13,375</u></b>

During the years ended 31 December 2009, 2008 and 2007 OJSC “Russian Railways” accounted for more than 10% of the Group’s revenue: RUR 2,085 million (13%), RUR 2,823 million (14%) and RUR 2,520 million (19%), respectively.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**22. OPERATING EXPENSES, NET**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Freight and transportation services . . . . .	3,832	3,698	3,013
Third-party charges relating to integrated logistics services . . . . .	3,138	2,688	105
Payroll and related charges . . . . .	2,437	2,749	2,346
Depreciation and amortization . . . . .	2,250	2,154	1,727
Materials, repair and maintenance . . . . .	1,182	1,902	1,981
Rent . . . . .	476	218	200
Taxes other than income tax . . . . .	426	362	280
Consulting services . . . . .	265	279	147
Security . . . . .	210	210	182
Fuel costs . . . . .	117	134	62
Advertising costs . . . . .	90	220	8
Charity . . . . .	85	115	38
Communication costs . . . . .	84	88	60
Change in provision for impairment of receivables . . . . .	(25)	40	28
Changes in provision for tax liabilities, other than income tax . . . . .	(30)	30	(95)
Gain on disposal of property, plant and equipment . . . . .	(257)	(20)	(51)
Other expenses, net . . . . .	446	703	655
<b>Total operating expenses, net . . . . .</b>	<b><u>14,726</u></b>	<b><u>15,570</u></b>	<b><u>10,686</u></b>

**23. INTEREST EXPENSE**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Interest expense on five-year RUR bonds, series 1 . . . . .	506	256	—
Interest expense on finance lease obligations . . . . .	326	222	31
Interest expense on bank loans . . . . .	113	21	—
<b>Total interest expense . . . . .</b>	<b><u>945</u></b>	<b><u>499</u></b>	<b><u>31</u></b>

**24. INCOME TAX**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current income tax charge . . . . .	(282)	(1,259)	(1,013)
Deferred income tax benefit / (expense) . . . . .	103	(14)	212
Deferred income tax benefit resulting from reduction in tax rate . . . . .	—	285	—
<b>Income tax . . . . .</b>	<b><u>(179)</u></b>	<b><u>(988)</u></b>	<b><u>(801)</u></b>

The statutory tax rate effective in the Russian Federation was 24% for the years ended 31 December 2008 and 2007. In November 2008, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 24% to 20% effective from 1 January 2009.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Income before taxation for financial reporting purposes is reconciled to tax expense for as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Profit before income tax</b> . . . . .	<b>768</b>	<b>4,558</b>	<b>2,735</b>
Theoretical tax charge at statutory rate (2009: 20%; 2008 and 2007: 24%) . . . . .	(154)	(1,094)	(656)
<b>Tax effect of items which are not deductible or assessable for taxation purposes:</b>			
Effect on deferred tax balances due to the change in income tax rate from 24% to 20% . . . . .	—	285	—
Annual bonus . . . . .	—	(22)	(72)
Benefits in-kind and other non-deductible payments to employees . . . . .	(34)	(41)	(22)
Non-deductible post-employment benefits . . . . .	(9)	(17)	(15)
Charity . . . . .	(17)	(28)	(9)
Income tax adjustments for prior periods . . . . .	62	—	(36)
Other non-deductible expenses . . . . .	(33)	(77)	22
Changes in provision for tax risks — taxes other than income tax . . . . .	6	(7)	(13)
Changes in provision for tax risks — income tax . . . . .	—	13	—
<b>Income tax</b> . . . . .	<b><u>(179)</u></b>	<b><u>(988)</u></b>	<b><u>(801)</u></b>

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position give rise to the following deferred tax effects:

	<u>1 January 2009</u>	<u>Charged to profit or loss</u>	<u>31 December 2009</u>
Property, plant and equipment . . . . .	1,944	73	2,017
Intangible assets . . . . .	2	(1)	1
Other . . . . .	(1)	(3)	(4)
Trade and other receivables . . . . .	1	(13)	(12)
Loans and borrowings . . . . .	1	1	2
Finance lease obligations . . . . .	(238)	(149)	(387)
Trade and other payables . . . . .	(41)	11	(30)
Employee benefits liability . . . . .	(49)	—	(49)
Deferred income . . . . .	—	(22)	(22)
<b>Total net deferred tax liability</b> . . . . .	<b><u>1,619</u></b>	<b><u>(103)</u></b>	<b><u>1,516</u></b>

	<u>1 January 2008</u>	<u>Charged to profit or loss</u>	<u>31 December 2008</u>
Property, plant and equipment . . . . .	2,110	(166)	1,944
Intangible assets . . . . .	4	(2)	2
Other . . . . .	—	(1)	(1)
Trade and other receivables . . . . .	(15)	16	1
Loans and borrowings . . . . .	—	1	1
Finance lease obligations . . . . .	(93)	(145)	(238)
Trade and other payables . . . . .	(73)	32	(41)
Employee benefits liability . . . . .	(43)	(6)	(49)
<b>Total net deferred tax liability</b> . . . . .	<b><u>1,890</u></b>	<b><u>(271)</u></b>	<b><u>1,619</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>1 January 2007</u>	<u>Effect of the company’s formation</u>	<u>Charged to profit or loss</u>	<u>31 December 2007</u>
Property, plant and equipment . . . . .	2,080	264	(234)	2,110
Intangible assets . . . . .	2	—	2	4
Trade and other receivables . . . . .	(13)	—	(2)	(15)
Finance lease obligations . . . . .	(131)	—	38	(93)
Trade and other payables . . . . .	(69)	—	(4)	(73)
Employee benefits liability . . . . .	(31)	—	(12)	(43)
<b>Total net deferred tax liability . . . . .</b>	<b><u>1,838</u></b>	<b><u>264</u></b>	<b><u>(212)</u></b>	<b><u>1,890</u></b>

**25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

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 nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding as of 31 December 2009 are disclosed below:

<u>Related party</u>	<u>Nature of relationship</u>
OJSC “Russian Railways” (RZD). . . . .	Parent company
OJSC “TransCreditBank”. . . . .	Fellow subsidiary of RZD
LLC “FinanceBusinessGroup” . . . . .	An entity related to OJSC “TransCreditBank”
CJSC “Sberbank Leasing” . . . . .	Subsidiary of OJSC “Sberbank”
LLC “Finans-Proekt” (Note 6) . . . . .	An entity related to OJSC “TransCreditBank”
LLC “Zapadny Port” (Note 6) . . . . .	Subsidiary of LLC “Finans-Proekt”
LLC “Refservice” . . . . .	Fellow subsidiary of RZD
LLC “Roszheldorstroy” . . . . .	Fellow subsidiary of RZD
LLC “Trans-Invest” (Note 20) . . . . .	An entity related to Fund Blagosostoyanie
Fund Blagosostoyanie . . . . .	Post-employment benefit plan for the benefit of employees of the Company
Fund Pochet . . . . .	Post-employment benefit plan for the benefit of employees of the Company

The ultimate controlling party of the Group is the Russian government and therefore all companies controlled by the Russian government are also treated as related parties of the Group for the purpose of these consolidated financial statements.

As a part of its normal operations, the Group enters into various transactions and has outstanding balances with state-controlled entities and governmental bodies, which are shown as “other” in the tables below. The majority of related party transactions are with OJSC “Russian Railways” (RZD) and its subsidiaries, and OJSC “TransCreditBank”, which are also state-controlled.

***Relationships with OJSC “Russian Railways” (RZD) and its subsidiaries***

The Group performs a variety of transactions with RZD (the “Parent”), which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority or rail-cars repair facilities in Russia, which are used by the Group to maintain its rolling stock in the operational condition.

In addition, under the provisions of the existing Russian regulations, certain functions associated with arrangement of container transportation process can only be performed by RZD. Pursuant to the transfer of the assets required for performance of such functions to the Group, RZD engaged TransContainer to act as its agent in performance of these functions. Revenue generated by the Group from such transactions with RZD is reported as agency fees in the accompanying consolidated profit or loss.

The Group maintains several bank accounts in OJSC “TransCreditBank”. In addition, OJSC “TransCreditBank” has guaranteed the promissory notes of LLC “Finance-Proekt”, acquired by the Group.



**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables provide the total amount of transactions, which have been entered into with related parties during the years ended 31 December 2009, 2008 and 2007 as well as year-end balances.

Transactions and balances with related parties as at and for the year ended 31 December 2009:

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Cash and cash equivalents . . . . .	429	429	—
Trade and other accounts receivables			
Trade receivables . . . . .	321	320	1
Other receivables . . . . .	<u>7</u>	<u>1</u>	<u>6</u>
	328	321	7
Prepayments and other current assets			
Advances to suppliers . . . . .	1,128	1,123	5
Prepaid income tax . . . . .	98	—	98
VAT receivable . . . . .	<u>681</u>	<u>—</u>	<u>681</u>
	1,907	1,123	784
Short-term investments . . . . .	55	—	55
Long-term investments . . . . .	<u>197</u>	<u>—</u>	<u>197</u>
<b>Total assets . . . . .</b>	<b><u>2,916</u></b>	<b><u>1,873</u></b>	<b><u>1,043</u></b>
Trade and other accounts payable			
Trade payables . . . . .	106	77	29
Liabilities to customers . . . . .	<u>39</u>	<u>12</u>	<u>27</u>
	145	89	56
Accrued and other liabilities			
Other payables . . . . .	132	118	14
Income tax payable . . . . .	76	—	76
Taxes other than income tax payable . . . . .	170	—	170
Finance lease obligations . . . . .	<u>973</u>	<u>—</u>	<u>973</u>
<b>Total liabilities . . . . .</b>	<b><u>1,496</u></b>	<b><u>207</u></b>	<b><u>1,289</u></b>
Revenue			
Rail-based container shipping services . . . . .	724	703	21
Agency fees . . . . .	1,367	1,362	5
Other services . . . . .	<u>102</u>	<u>49</u>	<u>53</u>
	2,193	2,114	79
Interest income on short-term investments . . . . .	5	—	5
Interest income on deposits . . . . .	<u>30</u>	<u>29</u>	<u>1</u>
<b>Total income . . . . .</b>	<b><u>2,228</u></b>	<b><u>2,143</u></b>	<b><u>85</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Expenses			
Freight and transportation services . . . . .	2,882	2,871	11
Third-party charges relating to integrated logistics services . . . . .	2,339	2,209	130
Repair services . . . . .	730	725	5
Taxes other than income tax . . . . .	426	—	426
Rent of property and equipment . . . . .	165	80	85
Other expenses . . . . .	287	212	75
	<u>6,829</u>	<u>6,097</u>	<u>732</u>
Income tax . . . . .	179	—	179
Interest expense on loans . . . . .	54	—	54
Interest expense on finance lease obligations . . . . .	177	—	177
<b>Total expenses</b> . . . . .	<b><u>7,239</u></b>	<b><u>6,097</u></b>	<b><u>1,142</u></b>
Acquisition of property, plant and equipment . . . . .	161	148	13
Purchase of materials . . . . .	2	2	—
Contributions to non-state pension funds . . . . .	61	61	—
<b>Total other transactions</b> . . . . .	<b><u>224</u></b>	<b><u>211</u></b>	<b><u>13</u></b>

Transactions and balances with related parties as at and for the year ended 31 December 2008:

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Cash and cash equivalents . . . . .	439	438	1
Trade and other accounts receivables			
Trade receivables . . . . .	647	642	5
Other receivables . . . . .	8	—	8
	<u>655</u>	<u>642</u>	<u>13</u>
Prepayments and other current assets			
Advances to suppliers . . . . .	210	205	5
Prepaid income tax . . . . .	136	—	136
VAT receivable . . . . .	1,107	—	1,107
	<u>1,453</u>	<u>205</u>	<u>1,248</u>
Long-term investments . . . . .	304	—	304
<b>Total assets</b> . . . . .	<b><u>2,851</u></b>	<b><u>1,285</u></b>	<b><u>1,566</u></b>
Trade and other accounts payable			
Trade payables . . . . .	604	588	16
Liabilities to customers . . . . .	38	10	28
	<u>642</u>	<u>598</u>	<u>44</u>
Accrued and other liabilities			
Other payables . . . . .	2	2	—
Income tax payable . . . . .	16	—	16
Taxes other than income tax payable . . . . .	145	—	145
Finance lease obligations . . . . .	1,189	—	1,189
<b>Total liabilities</b> . . . . .	<b><u>1,994</u></b>	<b><u>600</u></b>	<b><u>1,394</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Revenue			
Rail-based container shipping services . . . . .	1,092	1,072	20
Agency fees . . . . .	1,754	1,754	—
Other services . . . . .	41	30	11
	<u>2,887</u>	<u>2,856</u>	<u>31</u>
Interest income on deposits . . . . .	31	31	—
<b>Total income</b> . . . . .	<b><u>2,918</u></b>	<b><u>2,887</u></b>	<b><u>31</u></b>
Expenses			
Freight and transportation services . . . . .	3,284	3,259	25
Third-party charges relating to integrated logistics services . . . . .	1,299	1,299	—
Repair services . . . . .	1,031	965	66
Taxes other than income tax . . . . .	362	—	362
Rent of property and equipment . . . . .	44	25	19
Other expenses . . . . .	241	159	82
	<u>6,261</u>	<u>5,707</u>	<u>554</u>
Income tax . . . . .	988	—	988
Interest expense on finance lease obligations . . . . .	222	—	222
<b>Total expenses</b> . . . . .	<b><u>7,471</u></b>	<b><u>5,707</u></b>	<b><u>1,764</u></b>
Acquisition of property, plant and equipment . . . . .	1,192	205	987
Purchase of materials . . . . .	30	23	7
Contributions to non-state pension funds . . . . .	37	37	—
<b>Total other transactions</b> . . . . .	<b><u>1,259</u></b>	<b><u>265</u></b>	<b><u>994</u></b>

Transactions and balances with related parties as at and for the year ended 31 December 2007:

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Cash and cash equivalents			
Cash on bank accounts . . . . .	194	194	—
Bank deposits . . . . .	1,000	1,000	—
	<u>1,194</u>	<u>1,194</u>	<u>—</u>
Trade and other accounts receivables			
Trade receivables . . . . .	626	614	12
Other receivables . . . . .	21	17	4
	<u>647</u>	<u>631</u>	<u>16</u>
Prepayments and other current assets			
Advances to suppliers . . . . .	165	104	61
Prepaid income tax . . . . .	121	—	121
VAT receivable . . . . .	981	—	981
	<u>1,267</u>	<u>104</u>	<u>1,163</u>
Short-term bank deposits . . . . .	8	8	—
Long-term investments . . . . .	280	—	280
<b>Total assets</b> . . . . .	<b><u>3,396</u></b>	<b><u>1,937</u></b>	<b><u>1,459</u></b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Trade and other accounts payable			
Trade payables . . . . .	431	181	250
Liabilities to customers . . . . .	9	1	8
	<u>440</u>	<u>182</u>	<u>258</u>
Accrued and other liabilities			
Other payables . . . . .	21	17	4
Income tax payable . . . . .	24	—	24
Taxes other than income tax payable . . . . .	137	—	137
Finance lease obligations . . . . .	388	53	335
<b>Total liabilities</b> . . . . .	<b><u>1,010</u></b>	<b><u>252</u></b>	<b><u>758</u></b>
Revenue			
Rail-based container shipping services . . . . .	970	894	76
Agency fees . . . . .	1,602	1,602	—
Other services . . . . .	31	25	6
	<u>2,603</u>	<u>2,521</u>	<u>82</u>
Interest income on deposits . . . . .	56	56	—
<b>Total income</b> . . . . .	<b><u>2,659</u></b>	<b><u>2,577</u></b>	<b><u>82</u></b>
Expenses			
Freight and transportation services . . . . .	2,374	2,374	—
Repair services . . . . .	1,264	1,236	28
Taxes other than income tax . . . . .	280	—	280
Rent of property and equipment . . . . .	103	103	—
Other expenses . . . . .	273	217	56
	<u>4,294</u>	<u>3,930</u>	<u>364</u>
Income tax and other tax expenses . . . . .	801	—	801
Interest expense on finance lease obligations . . . . .	31	31	—
<b>Total expenses</b> . . . . .	<b><u>5,126</u></b>	<b><u>3,961</u></b>	<b><u>1,165</u></b>
Acquisition of property, plant and equipment . . . . .	2,374	1,387	987
Purchase of materials . . . . .	28	24	4
Contributions to non-state pension funds . . . . .	24	24	—
<b>Total other transactions</b> . . . . .	<b><u>2,426</u></b>	<b><u>1,435</u></b>	<b><u>991</u></b>

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (Note 15).

***Compensation of key management personnel***

Key management personnel consist of members of the Board of Directors of the Company, the General Director and his deputies, totaling 19 persons as of 31 December 2009 (2008 and 2007: 14 persons). Total gross compensation (including unified social tax and before withholding of personal income tax) to key management personnel included in payroll and related charges in the consolidated profit or loss amounted to RUR 54 million (including unified social tax of RUR 1 million), RUR 56 million (including unified social tax of RUR 1 million) and RUR 44 million (including unified social tax of RUR 1 million) for the years ended 31 December 2009, 2008 and 2007, respectively. Such compensation comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

**26. COMMITMENTS UNDER OPERATING LEASES**

The Group leases certain cranes, production buildings and office premises. The respective lease agreements have duration varying from one to six years. As disclosed in Note 6, the Group continues to rent property of Zapadny Port under a short-term operating lease agreement. During 2009 the Group entered into two rent agreements for

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

operating leases of flatcars with OJSC “RZD” and OJSC “RusTransVagon” for the period of three years. Additionally the Group leases land on which the Group’s container terminals are located.

Future minimum lease payments under contracted operating leases are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Within one year . . . . .	466	141	8
In two to five years . . . . .	389	92	24
After five years . . . . .	<u>3</u>	<u>—</u>	<u>—</u>
<b>Total minimum lease payments . . . . .</b>	<b><u>858</u></b>	<b><u>233</u></b>	<b><u>32</u></b>

**27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**

The Group’s capital commitments related to acquisition of containers and flatcars, lifting and other equipment, construction of container terminals and modernization of existing assets as of 31 December 2009, 2008 and 2007 consisted of the following:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Construction of container terminal complexes and modernization of existing assets . . .	1,027	1,038	151
Acquisition of containers and flatcars . . . . .	701	775	—
Acquisition of lifting machines and other equipment . . . . .	<u>187</u>	<u>221</u>	<u>67</u>
<b>Total capital commitments . . . . .</b>	<b><u>1,915</u></b>	<b><u>2,034</u></b>	<b><u>218</u></b>

**Operating environment of the Group** — Although in recent years there has been a general improvement in economic conditions in Russia, it continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Russia continue to change rapidly. Tax, currency and customs legislation within Russia is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of Russia is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the Russian government, together with legal, regulatory, and political developments.

**Environmental matters** — The enforcement of environmental regulation in the Russian Federation is continually evolving. The Group periodically evaluates its obligations under environmental regulations. 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 the Group has met the Russian government’s federal and regional requirements concerning environmental matters. Therefore, there are no significant liabilities for environmental damage or remediation.

**Legal proceedings** — During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group.

**Compliance with covenants** — As disclosed in Note 14, the Group is subject to certain covenants related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including claims for early repayment. As at 31 December 2009 the Group is in compliance with covenants.

**Insurance** — The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies that partially cover its vehicles, flatcars and buildings, and a Directors and Officers liability insurance policy. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**28. RISK MANAGEMENT ACTIVITIES**

***Capital Risk Management***

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the equity holder through the optimization of the debt and equity balance.

The capital structure of the Group consists of long-term borrowings, including bank loans, finance lease obligations and five-year RUR bonds, series 1, and equity, consisting of issued capital, reserves and retained earnings as disclosed in Note 13.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

***Major Categories of Financial Instruments***

The Group’s financial assets include long-term investments, trade and other receivables, cash and cash equivalents, and short-term investments. All financial assets fall into loans and receivables category under IAS 39 “Financial instruments: recognition and measurement”.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Financial assets</b>			
Cash and cash equivalents . . . . .	449	453	1,352
Trade and other receivables . . . . .	1,941	1,641	1,164
Short-term investments . . . . .	143	—	109
Long-term investments . . . . .	202	304	280
<b>Total financial assets</b> . . . . .	<b>2,735</b>	<b>2,398</b>	<b>2,905</b>

The Group’s principal financial liabilities are trade and other payables, borrowings, accruals, finance lease obligations, and five-year RUR bonds, series 1. All financial liabilities are carried at amortized cost.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Financial liabilities</b>			
Trade and other payables . . . . .	975	1,939	942
Payables to employees . . . . .	133	274	436
Five-year RUR bonds, series 1 . . . . .	3,153	3,088	—
Long-term borrowings . . . . .	1,520	—	—
Current portion of long-term borrowings . . . . .	3	—	—
Finance lease obligations . . . . .	1,908	1,189	388
<b>Total financial liabilities</b> . . . . .	<b>7,692</b>	<b>6,490</b>	<b>1,766</b>

***Liquidity Risk***

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group’s liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment 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 credit, loan or lease agreements and by budgeting procedures.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of finance lease obligations, borrowings and five-year RUR bonds, series 1. The non-interest bearing liabilities include trade and other payables and amounts payable to employees.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The following tables detail the Group’s remaining contractual maturity for financial liabilities.

The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	<u>Effective interest rate, %</u>	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months- 1 year</u>	<u>1-5 years</u>	<u>Total</u>
<b>2009</b>						
Non-interest bearing liability . . .		409	271	428	—	1,108
Five-year RUR bonds, series 1 . . .	18.45%	—	3,247	—	—	3,247
Loans and borrowings . . . . .	12% — 12.5%	3	—	—	1,520	1,523
Finance lease liability . . . . .	14.97% — 28.3%	<u>128</u>	<u>146</u>	<u>635</u>	<u>1,682</u>	<u>2,591</u>
<b>Total . . . . .</b>		<b><u>540</u></b>	<b><u>3,664</u></b>	<b><u>1,063</u></b>	<b><u>3,202</u></b>	<b><u>8,469</u></b>
<b>2008</b>						
Non-interest bearing liability . . .		339	722	1,152	—	2,213
Five-year RUR bonds, series 1 . . .	10.31%	—	3,142	—	—	3,142
Finance lease liability . . . . .	14.57% — 21.70%	<u>34</u>	<u>67</u>	<u>291</u>	<u>1,242</u>	<u>1,634</u>
<b>Total . . . . .</b>		<b><u>373</u></b>	<b><u>3,931</u></b>	<b><u>1,443</u></b>	<b><u>1,242</u></b>	<b><u>6,989</u></b>
<b>2007</b>						
Non-interest bearing liability . . .		909	261	208	—	1,378
Finance lease liability . . . . .	14.57% — 14.80%	<u>10</u>	<u>65</u>	<u>66</u>	<u>385</u>	<u>526</u>
<b>Total . . . . .</b>		<b><u>919</u></b>	<b><u>326</u></b>	<b><u>274</u></b>	<b><u>385</u></b>	<b><u>1,904</u></b>

The following tables detail the Group’s expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets, including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	<u>Effective interest rate, %</u>	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months- 1 year</u>	<u>1-5 years</u>	<u>Total</u>
<b>2009</b>						
<b>Loans and receivables</b>						
Trade and other receivables . . . . .		644	596	701	—	1,941
Short-term investments . . . . .	0%	—	—	143	—	143
Long-term investments . . . . .	0%	—	—	—	<u>202</u>	<u>202</u>
<b>Total . . . . .</b>		<b><u>644</u></b>	<b><u>596</u></b>	<b><u>844</u></b>	<b><u>202</u></b>	<b><u>2,286</u></b>
<b>2008</b>						
<b>Loans and receivables</b>						
Trade and other receivables . . . . .		414	565	662	—	1,641
Other long-term investments . . . . .	8%	—	—	—	<u>304</u>	<u>304</u>
<b>Total . . . . .</b>		<b><u>414</u></b>	<b><u>565</u></b>	<b><u>662</u></b>	<b><u>304</u></b>	<b><u>1,945</u></b>
<b>2007</b>						
Trade and other receivables . . . . .		176	988	—	—	1,164
Short-term bank deposits . . . . .	5% — 9%	1,147	109	—	—	1,256
Long-term investments . . . . .	8%	—	—	—	<u>280</u>	<u>280</u>
<b>Total . . . . .</b>		<b><u>1,323</u></b>	<b><u>1,097</u></b>	<b><u>—</u></b>	<b><u>280</u></b>	<b><u>2,700</u></b>

**Currency Risk**

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of TransContainer.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

During 2009, 2008 and 2007 the Group’s financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities. Therefore, weakening of Russian Rouble against the US Dollar and Euro during 2009 and 2008 did not create additional currency risks for the Group. For the year to 31 December 2009 the Russian Rouble depreciated against the US Dollar by 3%, and against EURO by 5% (20% and 15%, respectively, for the year to 31 December 2008; 7% and 3%, respectively, for the year to 31 December 2007). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

The carrying amounts of the Group’s foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD			EUR		
	2009	2008	2007	2009	2008	2007
<b>Assets</b>						
Cash and cash equivalents . . . . .	15	57	159	47	92	17
Trade and other receivables . . . . .	<u>262</u>	<u>158</u>	<u>103</u>	<u>69</u>	<u>90</u>	<u>—</u>
<b>Total assets</b> . . . . .	<u><u>277</u></u>	<u><u>215</u></u>	<u><u>262</u></u>	<u><u>116</u></u>	<u><u>182</u></u>	<u><u>17</u></u>
<b>Liabilities</b>						
Trade and other payables . . . . .	<u>83</u>	<u>189</u>	<u>144</u>	<u>10</u>	<u>26</u>	<u>—</u>
<b>Total liabilities</b> . . . . .	<u><u>83</u></u>	<u><u>189</u></u>	<u><u>144</u></u>	<u><u>10</u></u>	<u><u>26</u></u>	<u><u>—</u></u>

The table below details the Group’s sensitivity to strengthening of the Russian Rouble against US Dollar and EURO by 10%, all other variables being held constant. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD — impact			EUR — impact		
	2009	2008	2007	2009	2008	2007
<b>Loss</b> . . . . .	<u>(19)</u>	<u>(3)</u>	<u>(12)</u>	<u>(11)</u>	<u>(16)</u>	<u>(2)</u>

The weakening of the Russian Rouble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

***Interest rate risk***

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group’s financial performance. 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, and maintaining an appropriate mix between debt and equity.

As at 31 December 2007 the Group’s borrowed funds consisted of finance lease liabilities (Note 15). As at 31 December 2008 in addition to the finance lease liabilities the Group’s increased its borrowed funds by issuing five-year RUR bonds, series 1 (Note 20) in March 2008. As at 31 December 2009 the Group’s borrowed funds consisted of finance lease liabilities, five-year RUR bonds, series 1, and long-term bank loans (Note 14).

The Group is exposed to interest rate risk in regard to the five-year RUR bonds, series 1, for which the interest rate is reset after the second (March 2009) and the fourth (March 2010) semi-annual coupon payments respectively (please see also the liquidity risk section).

The coupon rate for the five-year RUR bonds, series 1 for the first and second year is 9.5% and 16.5% per annum respectively. The effective annual interest rate for the first and second year is 10.42% and 18.45%, respectively. If for each of the years the coupon rate had been 50 basis points higher/lower and all other variables were held constant, the Group’s profit for the years ended 31 December 2009 and 2008 would decrease/increase by RUR 12 million, due to the corresponding change in the effective annual interest rate.

The Group is also exposed to interest rate risk in regard to the long-term bank loans. All outstanding loans have been obtained from OJSC “Alfa-Bank” with 12%-12.5% effective annual interest rate (Note 14). According to the terms of contract if the interest rate of Central Bank of Russia changes OJSC “Alfa-Bank” may unilaterally change the



**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

contractual interest rate, which may not exceed 13.75%. The loans were obtained in several tranches during November and December 2009. If the interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group’s profit for the year ended 31 December 2009 would decrease/increase by RUR 1 million.

The Group’s finance lease obligations are fixed-rate financial instruments and therefore, they do not expose the Group to additional interest rate risk.

***Credit risk***

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

The Group’s exposure to credit risk arises primarily with respect to receivables in connection with container shipping activities. Credit exposure is managed by establishing credit terms for the most significant customers that are reviewed and approved by management. Credit sales are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on a prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables, 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 Group beyond the provision already recorded.

The Group’s business is dependent on a few large key customers. As of 31 December 2009 62% of the total net amount of trade and other receivables related to the five largest counterparties of the Group (31 December 2008: 54%; 31 December 2007:69%).

The largest receivables outstanding as of the reporting date are as follows:

	<b>2009</b>
	<b>Outstanding balance, net</b>
CJSC “Gorodskaya Innovacionno-Lizingovaya Kompaniya” (Note 9) . . . . .	477
OJSC “RZD” . . . . .	308
LLC “Novorossiysky Mazutniy Terminal” (Note 9) . . . . .	248
LLC “Sollers — Elabuga” (LLC “Severstalauto — Elabuga”) . . . . .	94
LLC “Volkswagen Group Rus” (LLC “Volkswagen Rus”) . . . . .	69
<b>Total</b> . . . . .	<b>1,196</b>
	<b>2008</b>
	<b>Outstanding balance, net</b>
OJSC “RZD” . . . . .	439
LLC “Volkswagen Rus” . . . . .	145
OJSC “RZDstroy No. 15” . . . . .	117
Schenker Automotive RailNet GmbH . . . . .	90
LLC “Severstalauto — Elabuga” . . . . .	87
<b>Total</b> . . . . .	<b>878</b>

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

	<b>2007</b>
	<b>Outstanding balance, net</b>
OJSC “RZD” .....	630
LLC “MKL Shipping” .....	74
LLC “Unico Logistics” .....	36
LLC “Volkswagen Rus” .....	33
LLC “F.E. Translogistics” .....	30
<b>Total</b> .....	<b>803</b>

As of 31 December 2007 an impairment of receivable from OJSC “RZD” has been recognized in the amount of RUR 47 million.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 96% of total cash and cash equivalents as of 31 December 2009 (2008: 97%; 2007: 88%), were held with one bank which is related to the Group.

The Group is also exposed to credit risk in respect of its investments in the promissory notes of LLC “Finans-Proekt” (refer to Note 6). The Group received a guarantee with respect to these promissory notes from OJSC “TransCreditBank”.

## **29. SUBSEQUENT EVENTS**

**Acquisition of flatcars** — In January 2010 the Group has purchased 50 flatcars from LLC “InterSystemsCapital” and 90 flatcars from OJSC “TransMash”, for a total amount of RUR 296 million. In July 2010 the Group has purchased 95 flatcars from OJSC “Transportnoye Mashinostroyeniye”, for a total amount of RUR 223 million (including VAT in the amount of RUR 34 million).

**Five-year RUR bonds, series 1** — In March 2010 the holders of RUR 2 million of bonds put these bonds back to the Group as allowed under the bonds conditions. The Group redeemed these bonds, at par, and then re-issued on the same day at current market rates to various investors. The interest rate for all following interest payments (from fifth to tenth inclusive) has been set at 9.5% p.a. There are no further put options on the bonds until their maturity in February 2013, and accordingly these bonds have been classified as long term.

**Issue of RUR bonds, series 2** — On 10 June 2010 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 roubles par value. Net proceeds from the issuance after the deduction of related offering costs amounted to RUR 2,975 million. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually..

**Dividends** — In respect of 2009 dividends in the amount of RUR 0.16 per share were approved by and paid to the shareholders.

**Acquisition of «JSC Kedentransservice»** — in June 2010 the board of directors approved the acquisition of 67% share in «JSC Kedentransservice» — a private operator of cargo handling terminal facilities and a provider of cargo transportation services in the Republic of Kazakhstan. Terms of the acquisition are currently being negotiated with the seller.

**Management incentive and share option programs** — On 15 October 2010 the board of directors of Russian Railways approved an incentive program for the Company’s management. Pursuant to the incentive program certain eligible managers of the Company can acquire in aggregate up to 208,421 ordinary shares of the Company at the time of its planned initial public offering (“IPO”) at 7.5 percent discount from the price at which the shares are priced in the IPO, but not below RUR 2,311.29 per share.

**CONSOLIDATED FINANCIAL STATEMENTS OF OJSC “TRANSCONTAINER”  
FOR THE YEARS ENDED 31 DECEMBER 2009, 2008 AND 2007 — (Continued)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

On 20 October 2010 the board of directors of the Company approved the stock option program for its certain managers eligible to participate in it. The stock option program provides for the grant of options to acquire up to 208,421 ordinary shares of the Company, exercisable over the four-year period beginning in 2011, with up to 25 percent of the stock option exercisable annually. It is intended that the options will be granted following the completion of the planned IPO. The price per share payable upon exercise of an option is the price at which a share is priced in the IPO.

**OPEN JOINT STOCK  
COMPANY  
“TRANSCONTAINER”**

**Interim Condensed Consolidated  
Financial Information**

For the Six-Month Period Ended 30 June 2010

OJSC “TRANSCONTAINER”

TABLE OF CONTENTS

	<u>Page</u>
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010.....	F-49
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010:	
Interim condensed consolidated statement of financial position .....	F-50
Interim condensed consolidated statement of comprehensive income .....	F-51
Interim condensed consolidated statement of cash flows .....	F-52
Interim condensed consolidated statement of changes in equity .....	F-53
Notes to the interim condensed consolidated financial information .....	F-54 - F-66



OJSC "TRANSCONTAINER"

**Joint-stock Company TransContainer**

6/2 Kalanchevskaya, Moscow, 107174 Russia

telephone: +7 (499) 262-85-06, fax: +7 (499) 262-75-78

e-mail: trcont@trcont.ru, www.trcont.ru

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of OJSC "TransContainer" (the "Company"), its joint venture and subsidiary (the "Group") as of 30 June 2010 and the consolidated results of its operations, cash flows and changes in equity for the six-month period then ended, in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

In preparing the interim condensed consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial information of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial information for the six-month period ended 30 June 2010 was approved on 22 October 2010 by:

---

**P. V. Baskakov**  
General Director

---

**K. S. Kalmykov**  
Chief Accountant

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 30 JUNE 2010**

	<u>Notes</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
		(UNAUDITED)	
		(Amounts in millions of Russian Roubles)	
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	3	24,534	23,097
Advances for acquisition of non-current assets . . . . .	3	2,241	2,308
Intangible assets . . . . .		105	102
Long-term investments . . . . .	4	208	206
<b>Total non-current assets . . . . .</b>		<b><u>27,088</u></b>	<b><u>25,713</u></b>
<b>Current assets</b>			
Inventory . . . . .		150	134
Trade and other receivables . . . . .	5	1,940	1,941
Prepayments and other current assets . . . . .	6	2,204	2,263
Prepaid income tax . . . . .		59	98
Short-term investments . . . . .	7	93	143
Cash and cash equivalents . . . . .	8	662	449
<b>Total current assets . . . . .</b>		<b><u>5,108</u></b>	<b><u>5,028</u></b>
<b>TOTAL ASSETS . . . . .</b>		<b><u>32,196</u></b>	<b><u>30,741</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital . . . . .	9	13,895	13,895
Reserve fund . . . . .		284	283
Other reserves . . . . .		(2,221)	(2,221)
Retained earnings . . . . .		6,680	6,486
<b>Total equity . . . . .</b>		<b><u>18,638</u></b>	<b><u>18,443</u></b>
<b>Non-current liabilities</b>			
Long-term debt . . . . .	10	6,232	1,520
Finance lease obligations, net of current maturities . . . . .	11	575	1,115
Employee benefit liability . . . . .		536	490
Deferred tax liability . . . . .		1,461	1,516
Deferred income . . . . .	11	28	49
<b>Total non-current liabilities . . . . .</b>		<b><u>8,832</u></b>	<b><u>4,690</u></b>
<b>Current liabilities</b>			
Trade and other payables . . . . .	13	3,453	3,172
Income tax payable . . . . .		46	76
Taxes other than income tax payable . . . . .	14	232	170
Finance lease obligations, current maturities . . . . .	11	506	793
Dividends payable . . . . .	9	2	—
Accrued expenses and other current liabilities . . . . .	15	330	184
Deferred income . . . . .	11	48	60
Current portion of long-term debt . . . . .	10	109	3,153
<b>Total current liabilities . . . . .</b>		<b><u>4,726</u></b>	<b><u>7,608</u></b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>		<b><u>32,196</u></b>	<b><u>30,741</u></b>

P. V. Baskakov  
General Director

K. S. Kalmykov  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
		(UNAUDITED)	
		(Amounts in millions of Russian Roubles, unless otherwise stated below)	
Revenue . . . . .	16	9,942	7,720
Operating expenses, net . . . . .	17	(9,160)	(7,118)
<b>Operating income</b> . . . . .		<b>782</b>	<b>602</b>
Interest expense . . . . .	18	(473)	(491)
Interest income . . . . .		9	33
Foreign exchange (loss)/gain, net . . . . .		(3)	10
<b>Profit before income tax</b> . . . . .		<b>315</b>	<b>154</b>
Income tax expense . . . . .	19	(118)	(65)
<b>Profit and comprehensive income for the period</b> . . . . .		<b>197</b>	<b>89</b>
<b>Earnings per share, basic and diluted (Russian Roubles)</b> . . . . .		<b>14</b>	<b>6</b>
<b>Weighted average number of shares outstanding</b> . . . . .		<b>13,894,778</b>	<b>13,894,778</b>

---

**P. V. Baskakov**  
General Director

---

**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of this interim condensed consolidated financial information.



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

	<u>2010</u>	<u>2009</u>
	(UNAUDITED)	
	(Amounts in millions of Russian Roubles)	
<b>Cash flows from operating activities:</b>		
<b>Profit before income tax</b> . . . . .	<b>315</b>	<b>154</b>
Adjustments for:		
Depreciation and amortization . . . . .	1,114	1,141
Change in provision for impairment of receivables . . . . .	5	(25)
Gain on disposal of property, plant and equipment . . . . .	(27)	—
Loss on impairment of property, plant and equipment . . . . .	9	7
Loss from termination of finance leases . . . . .	31	—
Interest expense, net . . . . .	464	458
Foreign exchange loss/(gain), net . . . . .	3	(10)
Change in provision for tax liabilities, other than income tax . . . . .	—	(30)
<b>Operating profit before working capital changes</b> . . . . .	<b>1,914</b>	<b>1,695</b>
Increase in inventory . . . . .	(16)	(11)
Increase in trade and other receivables . . . . .	(735)	(177)
Decrease in prepayments and other current assets . . . . .	122	363
Increase/(decrease) in trade and other payables . . . . .	174	(295)
Increase in taxes other than income tax payable . . . . .	134	32
Increase/(decrease) in accrued expenses and other current liabilities . . . . .	148	(11)
Increase/(decrease) in employee benefit liabilities . . . . .	46	(39)
<b>Net cash from operating activities before income tax</b> . . . . .	<b>1,787</b>	<b>1,557</b>
Interest paid . . . . .	(552)	(408)
Income tax paid . . . . .	(164)	(73)
<b>Net cash provided by operating activities</b> . . . . .	<b>1,071</b>	<b>1,076</b>
<b>Cash flows from investing activities:</b>		
Capital expenditure . . . . .	(2,385)	(1,033)
Proceeds from disposal of property, plant and equipment . . . . .	215	—
Purchases of long-term investments . . . . .	—	(4)
Proceeds from disposal of short-term investments . . . . .	50	—
Purchases of intangible assets . . . . .	(21)	(45)
Interest received . . . . .	14	28
<b>Net cash used in investing activities</b> . . . . .	<b>(2,127)</b>	<b>(1,054)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from short-term borrowings . . . . .	—	3,521
Proceeds from issue of bonds . . . . .	2,997	2,855
Repayments of finance lease obligations . . . . .	(858)	(205)
Repayments of long-term borrowings . . . . .	(1,263)	—
Repayments of short-term borrowings . . . . .	—	(3,078)
Repayments of short-term RUR bonds . . . . .	—	(2,902)
Proceeds from sale and leaseback . . . . .	404	—
<b>Net cash provided by financing activities</b> . . . . .	<b>1,280</b>	<b>191</b>
<b>Net increase in cash and cash equivalents</b> . . . . .	<b>224</b>	<b>213</b>
<b>Cash and cash equivalents at beginning of the period</b> . . . . .	<b>449</b>	<b>453</b>
Foreign exchange loss on cash and cash equivalents . . . . .	(11)	(129)
<b>Net cash and cash equivalents at end of the period</b> . . . . .	<b>662</b>	<b>537</b>

**P. V. Baskakov**  
General Director

**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010**

	<u>Share capital</u>	<u>Reserve fund</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
(UNAUDITED)					
(Amounts in millions of Russian Roubles)					
<b>Balance at 1 January 2009</b> . . . . .	<b><u>13,895</u></b>	<b><u>149</u></b>	<b><u>(2,221)</u></b>	<b><u>6,299</u></b>	<b><u>18,122</u></b>
<b>Profit and comprehensive income for the period</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>89</b>	<b>89</b>
Dividends . . . . .	—	—	—	(268)	(268)
Transfer to reserve fund . . . . .	—	134	—	(134)	—
<b>Balance at 30 June 2009</b> . . . . .	<b><u>13,895</u></b>	<b><u>283</u></b>	<b><u>(2,221)</u></b>	<b><u>5,986</u></b>	<b><u>17,943</u></b>
<b>Profit and comprehensive income for the period</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>500</b>	<b>500</b>
<b>Balance at 31 December 2009</b> . . . . .	<b><u>13,895</u></b>	<b><u>283</u></b>	<b><u>(2,221)</u></b>	<b><u>6,486</u></b>	<b><u>18,443</u></b>
<b>Profit and comprehensive income for the period</b> . . . . .	<b>—</b>	<b>—</b>	<b>—</b>	<b>197</b>	<b>197</b>
Dividends . . . . .	—	—	—	(2)	(2)
Transfer to reserve fund . . . . .	—	1	—	(1)	—
<b>Balance at 30 June 2010</b> . . . . .	<b><u>13,895</u></b>	<b><u>284</u></b>	<b><u>(2,221)</u></b>	<b><u>6,680</u></b>	<b><u>18,638</u></b>

---

**P. V. Baskakov**  
General Director

---

**K. S. Kalmykov**  
Chief Accountant

22 October 2010

The accompanying notes form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 (UNAUDITED)  
(Amounts in millions of Russian Roubles)**

**1. NATURE OF THE BUSINESS**

OJSC “TransContainer” (hereinafter the “Company” or TransContainer) was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006.

TransContainer’s principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 46 container terminals along the railway network in Russia. As of 30 June 2010 the Company operated 19 branches located in the Russian Federation. The Company’s registered address is 12, Novoryazanskaya Street, Moscow, 107228, Russian Federation, and the head office is located at 15A, Kalanchevskaya Street, Moscow, 107174, Russian Federation.

As of 30 June 2010 the Company has ownership in the following entities:

<u>Name of Entity</u>	<u>Type</u>	<u>Country</u>	<u>Activity</u>	<u>% interest held</u>
Oy ContainerTrans Scandinavia . . . . .	Joint venture	Finland	Container shipments	50
JSC TransContainer-Slovakia . . . . .	Subsidiary	Slovakia	Container shipments	100

The interim condensed consolidated financial information of OJSC “TransContainer”, its subsidiary and its joint venture (the “Group”) as of 30 June 2010 and for the six-month period then ended was authorized for issue by the General Director of the Company on 22 October 2010.

**2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

**Statement of compliance** — The annual financial statements of OJSC “TransContainer” are prepared in accordance with International Financial Reporting Standards (“IFRS”). This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

The consolidated statement of financial position as at 31 December 2009, included in this interim condensed consolidated financial information, has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2009. This interim condensed consolidated financial information should be read in conjunction with the audited annual consolidated financial statements.

**Significant accounting policies** — The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual financial statements as of 31 December 2009 and for the year then ended.

During the six-month period ended 30 June 2010 there were no changes in the accounting standards that had significant effect on the Group’s financial position and performance from the adoption of new standards.

**Seasonality** — The business of the Group is subject to significant seasonal fluctuations. Revenue and income from current operations are affected by such factors as river transport seasonality, the summer shipping season (for North regions) and consumer market cycles. Typically, the number of orders received between June and August exceeds significantly the year-average, while the number of orders received between January and February is below the year-average. To mitigate the impact of seasonal swings during the low seasons the Group offers its clients favorable tariffs and seeks to schedule flatcars and containers maintenance and repair. In accordance with IFRS, revenue and the related expenses are recognized in the period in which they are realized and incurred, respectively. The Group’s results for the interim period do not necessarily reflect a continuing trend which will be reflected in the year-end results.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

**3. PROPERTY, PLANT AND EQUIPMENT**

	<u>Land, buildings and constructions</u>	<u>Containers and flatcars</u>	<u>Cranes and loaders</u>	<u>Vehicles and other equipment</u>	<u>Construction in-progress</u>	<u>Total</u>
<b>Cost</b>						
<b>1 January 2009</b> .....	<b>4,098</b>	<b>18,823</b>	<b>1,184</b>	<b>1,593</b>	<b>854</b>	<b>26,552</b>
Additions .....	—	1,705	—	44	107	1,856
Transfers .....	122	—	—	40	(162)	—
Disposals .....	(11)	(36)	(1)	(6)	(2)	(56)
<b>30 June 2009</b> .....	<b><u>4,209</u></b>	<b><u>20,492</u></b>	<b><u>1,183</u></b>	<b><u>1,671</u></b>	<b><u>797</u></b>	<b><u>28,352</u></b>
Additions .....	8	952	—	98	416	1,474
Transfers .....	45	—	—	1	(46)	—
Disposals .....	(35)	(205)	(10)	(8)	—	(258)
<b>31 December 2009</b> .....	<b><u>4,227</u></b>	<b><u>21,239</u></b>	<b><u>1,173</u></b>	<b><u>1,762</u></b>	<b><u>1,167</u></b>	<b><u>29,568</u></b>
Additions .....	—	2,296	4	48	211	2,559
Transfers .....	33	2	57	7	(99)	—
Disposals .....	(6)	(76)	(9)	(6)	—	(97)
<b>30 June 2010</b> .....	<b><u>4,254</u></b>	<b><u>23,461</u></b>	<b><u>1,225</u></b>	<b><u>1,811</u></b>	<b><u>1,279</u></b>	<b><u>32,030</u></b>
<b>Accumulated depreciation</b>						
<b>1 January 2009</b> .....	<b>(753)</b>	<b>(2,982)</b>	<b>(358)</b>	<b>(400)</b>	<b>—</b>	<b>(4,493)</b>
Depreciation charge .....	(111)	(765)	(83)	(164)	—	(1,123)
Impairment .....	(7)	—	—	—	—	(7)
Disposals .....	—	35	1	6	—	42
<b>30 June 2009</b> .....	<b><u>(871)</u></b>	<b><u>(3,712)</u></b>	<b><u>(440)</u></b>	<b><u>(558)</u></b>	<b><u>—</u></b>	<b><u>(5,581)</u></b>
Depreciation charge .....	(91)	(752)	(76)	(167)	—	(1,086)
Impairment .....	—	—	(9)	—	—	(9)
Disposals .....	18	173	8	6	—	205
<b>31 December 2009</b> .....	<b><u>(944)</u></b>	<b><u>(4,291)</u></b>	<b><u>(517)</u></b>	<b><u>(719)</u></b>	<b><u>—</u></b>	<b><u>(6,471)</u></b>
Depreciation charge .....	(107)	(755)	(74)	(159)	—	(1,095)
Reversal of impairment/ (impairment) .....	4	—	(13)	—	—	(9)
Disposals .....	1	69	5	4	—	79
<b>30 June 2010</b> .....	<b><u>(1,046)</u></b>	<b><u>(4,977)</u></b>	<b><u>(599)</u></b>	<b><u>(874)</u></b>	<b><u>—</u></b>	<b><u>(7,496)</u></b>
<b>Net book value</b>						
<b>31 December 2009</b> .....	<b><u>3,283</u></b>	<b><u>16,948</u></b>	<b><u>656</u></b>	<b><u>1,043</u></b>	<b><u>1,167</u></b>	<b><u>23,097</u></b>
<b>30 June 2010</b> .....	<b><u>3,208</u></b>	<b><u>18,484</u></b>	<b><u>626</u></b>	<b><u>937</u></b>	<b><u>1,279</u></b>	<b><u>24,534</u></b>

Included in land, buildings and constructions is the amount of RUR 110 million, which represents the value of land plots owned by the Group as of 30 June 2010 and 31 December 2009.

Vehicles and other equipment category includes motor transport used for terminal services and truck deliveries in the amount of RUR 844 million and RUR 837 million as of 30 June 2010 and 31 December 2009, respectively.

Construction in-progress as of 30 June 2010 consisted mainly of the following:

- Capital expenditure incurred in relation to construction of new container terminals in Novosibirsk, Nizhniy Novgorod and Moscow Region amounting to RUR 363 million, RUR 270 million and RUR 51 million, respectively;
- Maintenance and reconstruction of container terminals in Yekaterinburg and Saratov in the amount of RUR 113 million and RUR 15 million, respectively;
- Reconstruction of repair depot in Lipetsk region in the amount of RUR 24 million;

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

- Capital expenditure related to construction of the Company’s new offices of RUR 177 million.

Leased assets as of 30 June 2010 and 31 December 2009 where the Group is a lessee under finance leases, comprised the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Cost . . . . .	1,994	2,753
Accumulated depreciation . . . . .	<u>(175)</u>	<u>(145)</u>
<b>Net book value . . . . .</b>	<b><u>1,819</u></b>	<b><u>2,608</u></b>

Refer to Note 11 for further details regarding finance leases.

*Advances for acquisition of non-current assets*

As of 30 June 2010 advances for acquisition of non-current assets consisted of amounts paid for acquisition of an office building in Moscow (RUR 1,642 million), acquisition of containers and flatcars (RUR 359 million) and acquisition of other non-current assets (RUR 240 million).

**4. LONG-TERM INVESTMENTS**

	<u>Effective interest rate</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
Promissory notes (Note 7) . . . . .	0%	197	197
Other long-term investments . . . . .	—	<u>11</u>	<u>9</u>
<b>Total long-term investments . . . . .</b>		<b><u>208</u></b>	<b><u>206</u></b>

**5. TRADE AND OTHER RECEIVABLES**

	<u>Outstanding balance, gross</u>	<u>Provision for impairment</u>	<u>Outstanding balance, net</u>
<b>30 June 2010</b>			
Trade receivables . . . . .	1,953	(57)	1,896
Other receivables . . . . .	<u>54</u>	<u>(10)</u>	<u>44</u>
<b>Total trade and other receivables . . . . .</b>	<b><u>2,007</u></b>	<b><u>(67)</u></b>	<b><u>1,940</u></b>
<b>31 December 2009</b>			
Trade receivables . . . . .	1,114	(56)	1,058
Other receivables . . . . .	<u>889</u>	<u>(6)</u>	<u>883</u>
<b>Total trade and other receivables . . . . .</b>	<b><u>2,003</u></b>	<b><u>(62)</u></b>	<b><u>1,941</u></b>

The movement in the provision for impairment in respect of accounts receivables is as follows:

<b>Balance as of 1 January 2009 . . . . .</b>	<b>(87)</b>
Additional provision, recognized in the period . . . . .	(36)
Release of provision . . . . .	<u>61</u>
<b>Balance as of 30 June 2009 . . . . .</b>	<b><u>(62)</u></b>
<b>Balance as of 31 December 2009 . . . . .</b>	<b>(62)</b>
Additional provision, recognized in the period . . . . .	<u>(5)</u>
<b>Balance as of 30 June 2010 . . . . .</b>	<b><u>(67)</u></b>

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

**6. PREPAYMENTS AND OTHER CURRENT ASSETS**

	<u>30 June 2010</u>	<u>31 December 2009</u>
VAT receivable . . . . .	891	681
Advances to suppliers . . . . .	1,120	1,450
Other current assets . . . . .	<u>193</u>	<u>132</u>
<b>Total prepayments and other current assets . . . . .</b>	<b><u>2,204</u></b>	<b><u>2,263</u></b>

**7. SHORT-TERM INVESTMENTS**

	<u>30 June 2010</u>	<u>31 December 2009</u>
Promissory notes . . . . .	—	55
Loans . . . . .	<u>93</u>	<u>88</u>
<b>Total short-term investments . . . . .</b>	<b><u>93</u></b>	<b><u>143</u></b>

As at 31 December 2009 the total carrying value of investments in promissory notes of LLC “Finance-Proekt”, a related party, was equal to RUR 252 million, of which RUR 197 million was included in long-term investments (Note 4). During the six-month period ended 30 June 2010 the short-term portion of the notes, totalling RUR 55 million, was redeemed in cash. The notes are repayable on demand, non-interest bearing and guaranteed by OJSC “TransCreditBank”, a related party (Note 20).

LLC “Finance-Proekt” owns 100% of LLC “Zapadny Port”. A substantial part of port facilities located on Don river near Rostov-na-Donu, owned by LLC “Zapadny Port”, is rented out to the Group under an operating lease agreement.

**8. CASH AND CASH EQUIVALENTS**

	<u>30 June 2010</u>	<u>31 December 2009</u>
Cash in hand and RUR balances with banks . . . . .	348	387
Foreign currency denominated balances with banks . . . . .	<u>314</u>	<u>62</u>
<b>Total cash and cash equivalents . . . . .</b>	<b><u>662</u></b>	<b><u>449</u></b>

**9. EQUITY**

*Share Capital*

The Company’s authorized and issued share capital as well as the shareholder structure as of 30 June 2010 has not changed since 31 December 2009.

*Dividends*

In respect of 2009, dividends of RUR 0.16 per share were approved at the annual shareholders’ meeting on 23 June 2010. As of 30 June 2010 the amount of dividends payable amounted to RUR 2 million which were paid to the shareholders in August 2010.

**10. LONG-TERM DEBT**

**Bank loans** — RUR-denominated Five-year loans from Alfa Bank were obtained by the Group during 2009 to finance acquisition of flatcars. The effective interest rate for the loans is 12.0%-12.5%, with interest payable on the 25<sup>th</sup> of each month.

During the six-month period ended 30 June 2010 the Group made a partial early repayment of the loans. Carrying value of the bank loans as at 30 June 2010 is RUR 257 million (RUR 1,520 million as at 31 December 2009).

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

Subsequent to the reporting date the Group made an additional payment of RUR 100 million to partially settle the loans.

In accordance with the loan terms the Group is subject to certain financial and non-financial covenants, including observance of a Debt/EBITDA ratio, calculated every six months on the basis of annual and interim financial statements. For the purposes of calculation debt includes all short and long term borrowings, finance lease obligations and interest expense for a twelve month period ended as at the reporting date. EBITDA includes income before interest expense, income tax, depreciation and amortization. In the event of non-compliance with the specified requirements the bank may increase the annual interest rate by 3%. In addition, the bank may require an early repayment of the loans if non-compliance with the financial covenants is not timely remediated.

The Group is also required to observe a minimal amount of quarterly cash turnover with the bank, non-compliance with which may result in fines.

As at 30 June 2010 the Group is in compliance with covenants.

Flatcars with net book value of RUR 364 million are pledged as a collateral under this loan agreement as at the reporting date (RUR 1,552 million as at 31 December 2009).

**Five-year RUR bonds, series 1** — On 4 March 2008 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 roubles par value. On 13 March 2009 majority of the bondholders requested redemption of their bonds in accordance with the put option. The Group redeemed the bonds and re-issued them on the same day. As at 31 December 2009 the coupon rate for the bonds was 16.5% per annum, with interest being paid semi-annually. On 12 March 2010 the coupon rate was changed to 9.5%, in accordance with the terms of the initial bond offering.

Carrying value of the bonds as at 30 June 2010 amounts to RUR 3,094 million (RUR 3,153 million at 31 December 2009). The amount of accrued coupon is RUR 94 million (RUR 164 million at 31 December 2009), and has been included as the Current portion of long-term debt in the interim condensed consolidated statement of financial position.

**Five-year RUR bonds, series 2** — On 10 June 2010 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with 1,000 roubles par value. Net proceeds from the issuance after the deduction of related offering costs amounted to RUR 2,975 million. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually.

The bonds will be redeemed in four equal installments within the fourth and the fifth year. As a result, these borrowings are classified as long-term borrowings as at the reporting date.

Carrying value of the bonds as at 30 June 2010 amounts to RUR 2,990 million. The amount of accrued coupon is RUR 15 million, and has been included as the Current portion of long-term debt in the interim condensed consolidated statement of financial position.

**11. FINANCE LEASE OBLIGATIONS**

	<u>Minimum lease payments</u>		<u>Present value of minimum lease payments</u>	
	<u>30 June 2010</u>	<u>31 December 2009</u>	<u>30 June 2010</u>	<u>31 December 2009</u>
Due within one year . . . . .	586	909	506	793
Due after one year but not more than five years . . . . .	<u>854</u>	<u>1,682</u>	<u>575</u>	<u>1,115</u>
	1,440	2,591	1,081	1,908
Less future finance charges . . . . .	<u>(359)</u>	<u>(683)</u>	<u>—</u>	<u>—</u>
<b>Present value of minimum lease payments . . . . .</b>	<b><u>1,081</u></b>	<b><u>1,908</u></b>	<b><u>1,081</u></b>	<b><u>1,908</u></b>

During the six-month period ended 30 June 2010 the Group purchased assets leased under two finance lease agreements, which were entered into during 2009. The excess of consideration paid over the outstanding finance lease liability as at the date of purchase amounted to RUR 31 million and has been recognized in the consolidated profit or loss.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

On 31 December 2009 the Group has entered into a sale and leaseback agreement with CJSC “Gorodskaya Innovacionno-Lizingovaya Kompaniya” for a sale and financial leaseback of the Group’s trucks with a net book value of RUR 296 million. Group continued to recognize the assets under the lease agreement at their previous carrying amounts. The excess of sale proceeds over the net book value of the assets in the amount of RUR 109 million has been recognized as deferred income in the consolidated statement of financial position, and will be amortized over the lease term. The lease agreement is for the period of three years with the effective interest rate of 28.3% (including the effect of offsetting the deferred income over the lease term).

During the six-month period ended 30 June 2010 deferred income, related to the sale and leaseback agreement has been amortized in the amount of RUR 33 million and included in Interest expense on finance lease obligations in the consolidated profit or loss.

All leases are on a fixed repayment basis and denominated in Russian Roubles. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

**12. EMPLOYEE BENEFIT LIABILITY**

*Defined contribution plans*

The total amount recognized as an expense in respect of payments to defined contribution plans for the six-month periods ended 30 June 2010 and 2009 consisted of the following:

	<b>2010</b>	<b>2009</b>
Pension Fund of the Russian Federation . . . . .	185	161
Non-state defined contribution plan “Blagosostoyanie” . . . . .	4	1
<b>Total expense for defined contribution plans</b> . . . . .	<b>189</b>	<b>162</b>

*Defined benefit plans*

The most recent actuarial valuation of the defined benefit obligation was carried out as of 31 December 2009 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method. The Group determined employee benefit liabilities as of 30 June 2010 and related costs for the six-month period then ended by means of making adjustments to the 2009 year-end amounts to reflect significant changes in the number of plan participants, salary increases and other significant events.

The amounts recognized in the interim consolidated profit or loss for the six-month periods ended 30 June 2010 and 30 June 2009 in respect of these defined benefit plans, which are included in Payroll and related charges, are as follows:

	<b>30 June 2010</b>	<b>30 June 2009</b>
Current service cost . . . . .	14	14
Interest on obligation . . . . .	23	25
Expected return on plan assets . . . . .	(1)	(1)
Actuarial (losses)/(gains) recognized during the period . . . . .	33	(64)
Amortization of past service cost . . . . .	8	8
Charges arising from transfer of employees <sup>(i)</sup> . . . . .	2	9
<b>Net expense/(income) recognized in the consolidated profit or loss</b> . . . . .	<b>79</b>	<b>(9)</b>

(i) The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

The principal assumptions used in computation of the Group’s defined benefit obligation as of 30 June 2010 have not changed from those used in preparation of the annual consolidated financial statements for the year ended 31 December 2009.



**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

The current year actuarial losses related to the defined benefit obligation were caused by the increase in the average salary level of the Group’s employees.

**13. TRADE AND OTHER PAYABLES**

	<u>30 June 2010</u>	<u>31 December 2009</u>
Trade payables . . . . .	405	585
Amounts payable for the acquisition of property, plant and equipment . . . . .	433	342
Liabilities to customers . . . . .	<u>2,615</u>	<u>2,245</u>
<b>Total trade and other payables . . . . .</b>	<b><u>3,453</u></b>	<b><u>3,172</u></b>

**14. TAXES OTHER THAN INCOME TAX PAYABLE**

	<u>30 June 2010</u>	<u>31 December 2009</u>
Property tax . . . . .	101	98
Unified social tax . . . . .	70	41
Personal income tax . . . . .	24	10
Other taxes . . . . .	<u>37</u>	<u>21</u>
<b>Total taxes other than income tax payable . . . . .</b>	<b><u>232</u></b>	<b><u>170</u></b>

**15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>30 June 2010</u>	<u>31 December 2009</u>
Settlements with employees . . . . .	266	133
Other liabilities . . . . .	<u>64</u>	<u>51</u>
<b>Total accrued expenses and other current liabilities . . . . .</b>	<b><u>330</u></b>	<b><u>184</u></b>

Settlements with employees as of 30 June 2010 and 31 December 2009 comprised accrued salaries and bonus of RUR 183 million and RUR 65 million, respectively, and the accrual for unused vacation of RUR 83 million and RUR 68 million, respectively.

**16. SEGMENT INFORMATION**

The chief operating decision-maker has been identified as the General Director of TransContainer. The General Director reviews the Group’s internal reporting in order to assess performance and allocate resources. Currently the General Director evaluates the business from a single perspective as one unit providing container shipping and other related services. While single groups of assets, such as containers, flatcars, container terminals, warehouses, and trucks may be able to generate some measure of revenue independently of each other, the Group can only sustain its competitive advantage and required profitability when all groups of assets function simultaneously, providing to the customers a completed package of shipping services. For this reason the General Director and the Group’s management considers the entire Group to be a single operating and reportable segment.

Information on the basis of which the General Director assesses the Group’s performance is revenue by category and load factor, which is measured in terms of transported TEUs (twentyfoot equivalent units) for both containers and flatcars, and fleet turnover — the amount of times the entire fleet of containers or flatcars on average makes a loaded trip during a year.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

*Analysis of revenue by category*

	<u>2010</u>	<u>2009</u>
Integrated logistics services . . . . .	4,414	2,571
Rail-based container shipping services . . . . .	3,223	3,093
Terminal services and agency fees . . . . .	941	778
Truck deliveries . . . . .	685	728
Freight forwarding and logistics services . . . . .	521	387
Bonded warehousing services . . . . .	113	120
Other . . . . .	45	43
<b>Total revenue . . . . .</b>	<b><u>9,942</u></b>	<b><u>7,720</u></b>

*Analysis of revenue by location of customers*

	<u>2010</u>	<u>2009</u>
<b>Revenue from external customers</b>		
Russia . . . . .	8,945	7,197
Germany . . . . .	490	290
China . . . . .	150	54
Korea . . . . .	99	39
Switzerland . . . . .	88	—
Other . . . . .	170	140
<b>Total revenue . . . . .</b>	<b><u>9,942</u></b>	<b><u>7,720</u></b>

During the six-month period ended 30 June 2010 no single customer accounted for over 10% of the Group’s revenue. The largest customer, OJSC “Russian Railways” (RZD), accounted for RUR 910 million (9%) of the Group’s revenue. During the six-month period ended 30 June 2009 revenue from RZD accounted for RUR 991 million (13%) of the Group’s revenue.

**17. OPERATING EXPENSES, NET**

	<u>2010</u>	<u>2009</u>
Third-party charges relating to integrated logistics services . . . . .	2,473	1,365
Freight and transportation services . . . . .	2,031	1,757
Payroll and related charges . . . . .	1,538	1,183
Depreciation and amortization . . . . .	1,114	1,141
Materials, repair and maintenance . . . . .	763	572
Rent . . . . .	274	187
Taxes other than income tax . . . . .	208	210
Security . . . . .	112	105
Consulting services . . . . .	98	143
Fuel costs . . . . .	60	55
License and software . . . . .	53	19
Communication costs . . . . .	47	47
Charity . . . . .	42	34
Loss from termination of finance leases . . . . .	31	—
Changes in provision for tax liabilities, other than income tax . . . . .	—	(30)
Gain on disposal of property, plant and equipment . . . . .	(27)	—
Other expenses, net . . . . .	343	330
<b>Total operating expenses, net . . . . .</b>	<b><u>9,160</u></b>	<b><u>7,118</u></b>

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

**18. INTEREST EXPENSE**

	<u>2010</u>	<u>2009</u>
Interest expense on five-year RUR bonds, series 1 . . . . .	188	231
Interest expense on five-year RUR bonds, series 2 . . . . .	15	—
Interest expense on finance lease obligations . . . . .	183	163
Interest expense on bank loans . . . . .	<u>87</u>	<u>97</u>
<b>Total interest expense . . . . .</b>	<b><u>473</u></b>	<b><u>491</u></b>

**19. INCOME TAX**

	<u>2010</u>	<u>2009</u>
Current income tax charge . . . . .	(173)	(162)
Deferred income tax benefit . . . . .	<u>55</u>	<u>97</u>
<b>Income tax . . . . .</b>	<b><u>(118)</u></b>	<b><u>(65)</u></b>

**20. BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

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 nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding as of 30 June 2010 are disclosed below:

<u>Related party</u>	<u>Nature of relationship</u>
OJSC “Russian Railways” (RZD) . . . . .	Parent company
OJSC “TransCreditBank” . . . . .	Fellow subsidiary of RZD
LLC “FinanceBusinessGroup” . . . . .	An entity related to OJSC “TransCreditBank”
CJSC “Sberbank Leasing” . . . . .	Subsidiary of Sberbank
LLC “Finans-Proekt” (Note 7) . . . . .	An entity related to OJSC “TransCreditBank”
LLC “Zapadny Port” (Note 7) . . . . .	Subsidiary of LLC “Finans-Proekt”
LLC “Roszheldorstroy” . . . . .	Fellow subsidiary of RZD
LLC “Trans-Invest” . . . . .	An entity related to Fund Blagosostoyanie
Fund Blagosostoyanie . . . . .	Post-employment benefit plan for the benefit of employees of the Company
Fund Pochet . . . . .	Post-employment benefit plan for the benefit of employees of the Company

The ultimate controlling party of the Group is Russian government and therefore all companies controlled by Russian government are also treated as related parties of the Group for the purpose of this interim condensed consolidated financial information.

As a part of its normal operations, the Group enters into various transactions and has outstanding balances with state-controlled entities and governmental bodies, which are shown as “other” in the tables below. The majority of related party transactions are with OJSC “Russian Railways” (RZD) and its subsidiaries, and OJSC “TransCreditBank”, which are also state-controlled.

***Relationships with OJSC “Russian Railways” (RZD) and its subsidiaries***

The Group performs a variety of transactions with RZD (the “Parent”), which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-cars repair facilities in Russia, which are used by the Group to maintain its rolling stock in the operational condition.

In addition, under the provisions of the existing Russian regulations, certain functions associated with arrangement of container transportation process can only be performed by RZD. Pursuant to the transfer of the assets required for performance of such functions to the Group, RZD engaged TransContainer to act as its agent in performance of

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

these functions. Revenue generated by the Group from such transactions with RZD is reported as agency fees in the accompanying interim condensed consolidated statement of comprehensive income.

The Group maintains several bank accounts in OJSC “TransCreditBank”. In addition, OJSC “TransCreditBank” has guaranteed the promissory notes of LLC “Finance-Proekt”, acquired by the Group.

The following table provides the total amount of transactions, which have been entered into with related parties during the six-month period ended 30 June 2010, as well as ending balances as at 30 June 2010:

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Cash and cash equivalents . . . . .	594	592	2
Trade and other accounts receivables			
Trade receivables . . . . .	1,183	1,181	2
Other receivables . . . . .	41	1	40
	<u>1,224</u>	<u>1,182</u>	<u>42</u>
Prepayments and other current assets			
Advances to suppliers . . . . .	718	661	57
Prepaid income tax . . . . .	59	—	59
VAT receivable . . . . .	891	—	891
	<u>1,668</u>	<u>661</u>	<u>1,007</u>
Long-term investments . . . . .	197	—	197
<b>Total assets . . . . .</b>	<b><u>3,683</u></b>	<b><u>2,435</u></b>	<b><u>1,248</u></b>
Trade and other accounts payable			
Trade payables . . . . .	306	298	8
Liabilities to customers . . . . .	36	13	23
	<u>342</u>	<u>311</u>	<u>31</u>
Accrued and other liabilities			
Other payables . . . . .	38	—	38
Income tax payable . . . . .	46	—	46
Taxes other than income tax payable . . . . .	232	—	232
Finance lease obligations . . . . .	865	230	635
<b>Total liabilities . . . . .</b>	<b><u>1,523</u></b>	<b><u>541</u></b>	<b><u>982</u></b>
Revenue			
Rail-based container shipping services . . . . .	397	392	5
Agency fees . . . . .	740	737	3
Other services . . . . .	53	30	23
	<u>1,190</u>	<u>1,159</u>	<u>31</u>
Interest income on deposits . . . . .	7	7	—
<b>Total income . . . . .</b>	<b><u>1,197</u></b>	<b><u>1,166</u></b>	<b><u>31</u></b>

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Operating Expenses			
Freight and transportation services . . . . .	1,517	1,515	2
Third-party charges relating to integrated logistics services . . . . .	2,011	1,762	249
Repair services . . . . .	406	404	2
Taxes other than income tax . . . . .	208	—	208
Rent of property and equipment . . . . .	162	162	—
Other expenses . . . . .	125	88	37
	<u>4,429</u>	<u>3,931</u>	<u>498</u>
Income tax . . . . .	118	—	118
Interest expense on finance lease obligations . . . . .	75	18	57
<b>Total expenses</b> . . . . .	<b><u>4,622</u></b>	<b><u>3,949</u></b>	<b><u>673</u></b>
Acquisition of property, plant and equipment . . . . .	458	456	2
Purchase of materials . . . . .	4	—	4
Contributions to non-state pension funds . . . . .	26	—	26
<b>Total other transactions</b> . . . . .	<b><u>488</u></b>	<b><u>456</u></b>	<b><u>32</u></b>

The following table provides the total amount of transactions, which have been entered into with related parties during the six-month period ended 30 June 2009, as well as ending balances as at 31 December 2009:

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Cash and cash equivalents . . . . .	429	429	—
Trade and other accounts receivables			
Trade receivables . . . . .	321	321	—
Other receivables . . . . .	7	1	6
	<u>328</u>	<u>322</u>	<u>6</u>
Prepayments and other current assets			
Advances to suppliers . . . . .	1,128	1,123	5
Prepaid income tax . . . . .	98	—	98
VAT receivable . . . . .	681	—	681
	<u>1,907</u>	<u>1,123</u>	<u>784</u>
Short-term investments . . . . .	55	—	55
Long-term investments . . . . .	197	—	197
<b>Total assets</b> . . . . .	<b><u>2,916</u></b>	<b><u>1,874</u></b>	<b><u>1,042</u></b>
Trade and other accounts payable			
Trade payables . . . . .	106	77	29
Liabilities to customers . . . . .	39	12	27
	<u>145</u>	<u>89</u>	<u>56</u>
Accrued and other liabilities			
Other payables . . . . .	132	118	14
Income tax payable . . . . .	76	—	76
Taxes other than income tax payable . . . . .	170	—	170
Finance lease obligations . . . . .	973	—	973
<b>Total liabilities</b> . . . . .	<b><u>1,496</u></b>	<b><u>207</u></b>	<b><u>1,289</u></b>

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

	<u>Total</u>	<u>RZD and its subsidiaries</u>	<u>Other</u>
Revenue			
Rail-based container shipping services . . . . .	346	339	7
Agency fees . . . . .	634	634	—
Other services . . . . .	104	18	86
	<u>1,084</u>	<u>991</u>	<u>93</u>
Interest income on short-term investments . . . . .	5	—	5
Interest income on deposits . . . . .	27	27	—
<b>Total income</b> . . . . .	<b><u>1,116</u></b>	<b><u>1,018</u></b>	<b><u>98</u></b>
Operating Expenses			
Freight and transportation services . . . . .	1,337	1,336	1
Third-party charges relating to integrated logistics services . . . . .	1,034	1,034	—
Repair services . . . . .	351	351	—
Taxes other than income tax . . . . .	210	—	210
Rent of property and equipment . . . . .	68	25	43
Other expenses . . . . .	114	70	44
	<u>3,114</u>	<u>2,816</u>	<u>298</u>
Income tax . . . . .	65	—	65
Interest expense on bank loans . . . . .	54	—	54
Interest expense on finance lease obligations . . . . .	93	—	93
<b>Total expenses</b> . . . . .	<b><u>3,326</u></b>	<b><u>2,816</u></b>	<b><u>510</u></b>
Acquisition of property, plant and equipment . . . . .	66	55	11
Purchase of materials . . . . .	3	2	1
Contributions to non-state pension funds . . . . .	23	—	23
<b>Total other transactions</b> . . . . .	<b><u>92</u></b>	<b><u>57</u></b>	<b><u>35</u></b>

The amounts outstanding to and from related parties are unsecured except as disclosed for finance leases (Note 11).

***Compensation of key management personnel***

Key management personnel consist of members of the Board of Directors of the Company, the General Director and his deputies, totaling 15 and 14 persons as of 30 June 2010 and 30 June 2009, respectively. Total gross compensation (including unified social tax and before withholding of personal income tax) to key management personnel amounted to RUR 46 million (including unified social tax of RUR 1 million) and RUR 25 million (including unified social tax of RUR 1 million) for the six-month periods ended 30 June 2010 and 30 June 2009, respectively. Such compensation is included in Payroll and related charges in the consolidated profit or loss and comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

**21. COMMITMENTS UNDER OPERATING LEASES**

The Group leases certain cranes, production buildings and office premises. The respective lease agreements have duration varying from one to six years. Additionally the Group leases land on which the Group’s container terminals are located.

The Group continues to rent property of Zapadny Port and flatcars from OJSC “RusTransVagon” under operating lease agreements.

**INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF OJSC “TRANSCONTAINER”  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2010 — (Continued)**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION — (Continued)**

Future minimum lease payments under contracted operating leases are as follows:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Within one year . . . . .	204	466
In two to five years . . . . .	56	388
After five years . . . . .	<u>4</u>	<u>3</u>
<b>Total minimum lease payments . . . . .</b>	<b><u>264</u></b>	<b><u>857</u></b>

**22. CAPITAL COMMITMENTS**

The Group’s capital commitments as of 30 June 2010 and 31 December 2009 consisted of the following:

	<u>30 June 2010</u>	<u>31 December 2009</u>
Construction of container terminal complexes and modernization of existing assets . . . . .	695	1,027
Acquisition of containers and flatcars . . . . .	1,189	701
Acquisition of lifting machines and other equipment . . . . .	<u>57</u>	<u>187</u>
<b>Total capital commitments . . . . .</b>	<b><u>1,941</u></b>	<b><u>1,915</u></b>

**23. SUBSEQUENT EVENTS**

*Acquisition of flatcars* — In July 2010 the Group has purchased 95 flatcars from OJSC “Transportnoye Mashinostroyeniye”, for a total amount of RUR 223 million (including VAT in the amount of RUR 34 million).

**Management incentive and share option programs** — On 15 October 2010 the board of directors of Russian Railways approved an incentive program for the Company’s management. Pursuant to the incentive program certain eligible managers of the Company can acquire in aggregate up to 208,421 ordinary shares of the Company at the time of its planned initial public offering (“IPO”) at 7.5 percent discount from the price at which the shares are priced in the IPO, but not below RUR 2,311.29 per share.

On 20 October 2010 the board of directors of the Company approved the stock option program for its certain managers eligible to participate in it. The stock option program provides for the grant of options to acquire up to 208,421 ordinary shares of the Company, exercisable over the four-year period beginning in 2011, with up to 25 percent of the stock option exercisable annually. It is intended that the options will be granted following the completion of the planned IPO. The price per share payable upon exercise of an option is the price at which a share is priced in the IPO.

## COMPANY

### OJSC “Center for Cargo Container Traffic “TransContainer””

15a, Kalanchevskaya Street  
Moscow, 107174  
Russia Federation

## SELLING SHAREHOLDER

### Open Joint Stock Company “Russian Railways”

2, Novaya Basmannaya Street  
Moscow, 107174  
Russian Federation

## JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

<b>J.P. Morgan Securities Ltd.</b> 125 London Wall London EC2Y 5AJ United Kingdom	<b>Morgan Stanley &amp; Co. International plc</b> 25 Cabot Square Canary Wharf London E14 4QA United Kingdom	<b>CJSC “Investment Company “Troika Dialog””</b> 4, Romanov pereulok Moscow, 125009 Russian Federation	<b>TD Investments Limited</b> 57 Digeni Akrita Ave., Zachariades Building, Office 301 C4-10710 Nicosia, Cyprus
--	--	---	--

## CO-BOOKRUNNER

**TKB Capital (CJSC)**  
7, bld. 3, Znamenka Street  
Moscow, 125009  
Russian Federation

## LEGAL ADVISORS TO THE COMPANY AND SELLING SHAREHOLDER

*To the Company and the Selling Shareholder as to English, Russian and U.S. law:*

**Freshfields Bruckhaus Deringer LLP**  
65 Fleet Street  
London EC4Y 1HS  
United Kingdom

**Freshfields Bruckhaus Deringer LLP**  
14/2 Kadashevskaya Embankment  
Moscow 119017  
Russian Federation

## LEGAL ADVISORS TO THE MANAGERS

*To the Managers as to English and U.S. law:*

**Skadden, Arps, Slate, Meagher & Flom (UK) LLP**  
40 Bank Street Canary Wharf  
London E14 5DS  
United Kingdom

*To the Managers as to Russian law:*

**Skadden, Arps, Slate, Meagher & Flom LLP**  
6 Gasheka Street, 11<sup>th</sup> Floor  
Moscow 125047  
Russian Federation

## DEPOSITARY

**BNY Mellon (Cyprus) Nominees Limited**  
Arch. Makariou III, 195  
Neocleous House  
P.C. 3030  
Limassol  
Cyprus

## LEGAL ADVISORS TO THE DEPOSITARY

**Clifford Chance**  
10 Upper Bank Street  
Canary Wharf  
London E14 5JJ  
United Kingdom

## INDEPENDENT AUDITOR

**ZAO Deloitte & Touche CIS**  
5 Lesnaya Street, Building B  
Moscow 125047  
Russian Federation



