TRANSGARANT GROUP

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

31 DECEMBER 2006

Contents

Transgarant Group
Statement of Management Responsibilities

Management has prepared and is responsible for the financial statements and related notes of OOO "Firm "Transgarant" (the "Company") and its subsidiaries (the "Group"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Gushchin S. A.
General Director

Dated:

Goncharov R. S.
Finance Director

Dated:

REPORT OF THE INDEPENDENT AUDITORS
TO THE OWNER OF OOO "FIRM "TRANSGARANT"

1. We have audited the accompanying consolidated balance sheet of OOO "Firm "Transgarant" (the "Company") and its subsidiaries (the "Group") as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 28.

Management's responsibility for Financial Statements

2. 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 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

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

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

Opinion

5. In our opinion, the accompanying financial statements present fairly the financial position of the Group as of 31 December 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

OOO Moore Stephens 16 April 2007

38 Stremyanny Pereulok,
113093, Moscow
Russian Federation

(in thousands of Russian Roubles)

	Note	2006	2005
ASSETS			
Current assets:			
Cash and cash equivalents	6	219,730	66,332
Loans issued	7	206,583	62,684
Loans issued and promissory notes – related parties	5	31,076	154,842
Interest receivable		10,430	-
Accounts receivable – third parties	8	441,943	654,267
Accounts receivable and prepayments – related parties	5	101,848	113,678
Prepayments – third parties	9	385,863	438,062
Value added taxes receivable and recoverable		308,033	337,313
Inventories		50,847	9,620
Other receivables	13	312,912	35,808
Total current assets		**2,069,265**	**1,872,606**
Non-current assets:			
Property, plant and equipment	11	5,050,702	3,827,033
Prepayments for non-current assets		-	182,756
Other long-term prepayments		-	6,409
Investments in associated undertaking	10	63,823	32,898
Total non-current assets		**5,114,525**	**4,049,096**
Total assets		**7,183,790**	**5,921,702**
LIABILITIES & OWNER'S EQUITY			
Current liabilities:			
Accounts payable and accrued expenses – third parties		214,895	201,834
Advances from customers		72,365	316,990
Accounts payable and advances received – related parties	5	10,952	25,243
Short-term borrowings – third parties	15	1,520,928	1,023,111
Short-term borrowings – related parties	5	-	2,029,059
Short-term obligations under finance leases	14	468,635	230,648
Other liabilities	16	121,770	83,553
Total current liabilities		**2,409,545**	**3,910,438**
Non-current liabilities:			
Long-term borrowings – third parties	15	2,629,202	448,193
Long-term obligations under finance leases	14	719,320	771,636
Deferred tax liability	21	44,987	33,525
Total non-current liabilities		**3,393,509**	**1,253,354**
Total liabilities excluding net assets attributable to owner		**5,803,054**	**5,163,792**
Net assets attributable to owner			
Charter capital	17	880,000	600,000
Retained earnings		499,786	157,910
Total net assets attributable to owner		**1,379,786**	**757,910**
Minority interests	12	950	-
Total liabilities		**7,183,790**	**5,921,702**

General Director

Gushchin S.A.
16 April 2007

Finance Director

Goncharov R. S.

(in thousands of Russian Roubles)

	Note	2006	2005
Revenue	18	4,130,400	3,685,853
Cost of sales	19	(3,487,634)	(2,844,925)
Gross profit		**642,766**	**840,928**
Selling, general and administrative expenses		(37,559)	(51,890)
Other expenses		(5,079)	(10,112)
Operating profit		**600,128**	**778,926**
Interest expense	20	(537,492)	(445,448)
Interest income		30,801	25,884
Share of associate's net income	10	30,873	21,963
Result on disposal of fixed assets	11	121,701	(6,002)
Goodwill written off	12	38,789	-
Foreign exchange gain/(loss)		206,365	(61,296)
Profit before tax		**491,165**	**314,027**
Taxation	21	(148,372)	(66,381)
Profit for the year		**342,793**	**247,646**
Attributable to:			
Equity holders of the parent		341,659	247,646
Minority interest	12	1,134	-
		342,793	**247,646**

(in thousands of Russian Roubles)

	Note	2006	2005
Cash flows from operating activities			
Profit before taxation		**490,031**	**314,027**
Adjustments for:			
Depreciation	11	298,944	214,218
(Gain)/Loss on disposal of property, plant and equipment		(121,701)	6,002
Charges to provisions on operating items		233,100	14,244
Interest expenses, net		506,691	419,564
Negative goodwill written off	12	(38,789)	-
Reversal of investment impairment		(50)	-
Foreign exchange (profit) / loss on non-operating items		(205,231)	61,296
Share of net results from associates	10	(30,873)	(21,963)
Operating cash flows before working capital changes		**1,132,122**	**1,007,388**
Changes in working capital balances:			
Accounts receivable and prepayments		90,782	(617,997)
Accounts payable and accrued expenses		(296,355)	(70,775)
Inventory		(39,434)	(8,503)
Other receivables		(265,699)	1,363
Other payables		28,117	(4,800)
Cash provided from operations		**649,533**	**306,676**
Interest paid		(596,857)	(403,563)
Profit taxes paid		(108,871)	(16,843)
Net cash generated by / (used in) operating activities		**(56,195)**	**(113,730)**
Cash flows from investing activities:			
Purchase of property, plant and equipment		(337,442)	(1,384,947)
Proceeds from sale of property, plant and equipment		516,366	20,578
Loans repaid		131,531	161,402
Acquisition of subsidiaries		(120,751)	-
Acquisition of associate		-	(15)
Proceeds from sales of investments		48,628	85
Interest received		20,371	25,884
Net cash generated by/(used in) investing activities:		**258,703**	**(1,177,013)**
Cash flows from financing activities:			
Proceeds from loans payable		8,790,333	8,936,238
Repayment of loans payable		(8,231,077)	(7,578,354)
Repayment of lease liability		(738,820)	(256,551)
Loans issued and promissory notes purchased		(151,664)	(217,526)
Contribution from owner		280,000	438,791
Net cash provided by financing activities		**(51,228)**	**1,322,598**
Foreign exchange		**2,118**	**-**
Net increase in cash and cash equivalents		**153,398**	**31,855**
Cash and cash equivalents at the beginning of the period	**6**	**66,332**	**34,477**
Cash and cash equivalents at the end of the period	**6**	**219,730**	**66,332**

(in thousands of Russian Roubles)

	Note	Charter capital	Retained earnings	Attributable to owner	Minority interest	Total
Equity at 1 January 2005	17	**600,000**	**(89,736)**	**510,264**	**-**	**510,264**
Profit for the year		-	247,646	**247,646**	-	**247,646**
Balance at 1 January 2006		**600,000**	**157,910**	**757,910**		**757,910**
Profit for the year		-	342,793	**342,793**	-	**342,793**
Contributions from owner	17	280,000	-	**280,000**	-	**280,000**
Minority interest at acquisition date	12	-	-	**-**	2,084	**2,084**
Minority interest share of loss	12	**-**	-	**-**	(1,134)	**(1,134)**
Translation difference		**-**	(917)	**(917)**	-	**(917)**
Balance at 31 December 2006		**880,000**	**499,786**	**1,379,786**	**950**	**1,380,736**

1 The Group and its operations

The principal activity of OOO “Firm “Transgarant” (the “Company”) and its subsidiaries (the “Group”) is to provide railway transportation services mainly within the Russian Federation. The Group renders transportation services using its own and leased railway wagons, hoppers, steel-pellet wagons, and tank wagons. The Company uses its own leased locomotives. The Company also uses rolling stock leased under short term operating lease agreements from OAO “Russian Railways”, its subsidiaries and other companies on an as-needed basis. The Group’s main suppliers are OAO “Russian Railways” and other Russian state owned railway enterprises.

The Company is a limited liability company incorporated in the Russian Federation on 23 December 1997. The Company is registered and located at 24 Radio Street, Yauza Tower, Moscow, Russian Federation. The Company is a 100% subsidiary of Neteller Holdings Ltd, a company registered in Cyprus. At the balance sheet date the Group did not have an ultimate controlling party because the Group was jointly controlled by two entities. After the balance sheet date but before signing date of these financial statements Mr Sergey Generalov became the Group’s ultimate controlling party.

The principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Entity	Date of Acquisition	Country of Incorporation	Activity	Ownership at 31 December 2006	Ownership at 31 December 2005
OAO "KMAzheldortrans"	July 2004	Russia	Rolling stock transportation and repair services	99%	99%
DP “Transgarant-Ukraine”	1 April 2004	Ukraine	Transportation services	100%	100%
OOO “Remontnaya Transport Company”	8 June 2005	Russia	Rolling stock repair services	100%	100%
OAO “Stroyopttorg”	29 March 2006	Russia	Trading of construction materials	75%	-

As of 31 December 2006 the Group employed 583 employees (2005: 439 employees).

2 Basis of presentation of the financial statements and significant accounting policies

a) Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

b) Working capital deficit. As at 31 December 2006 the Company has a net working capital deficit of RR 341 mln (31 December 2005: RR 2,037 mln). Management considers that the Group will be able to meet its obligations as they fall due as it has access to financing facilities and is able to re-finance short-term borrowings. In addition a number of property, plant and equipment items purchased in 2006 were sold and leased back in 2006, the Company has received an additional capital contribution and concluded long term loan agreements. Thus, these financial statements are presented on a going concern basis.

c) Presentation currency. All amounts in these financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

2 Basis of presentation of the financial statements and significant accounting policies (continued)

d) Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

e) Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost (”negative goodwill”) is recognised immediately in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

f) Investments in associates. Associates are entities over which the Company has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Company’s share of the post-acquisition profits or losses of associates is recorded in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Company’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

g) Investments in joint venture. Joint ventures are those companies and other entities in which the Group, directly or indirectly, undertake an economic activity that is subject to joint control. Investments in joint ventures are consolidated on proportionate consolidation method.

h) Classification of financial assets. The Group has financial assets that fall into the following measurement categories: held to maturity and loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

2 Basis of presentation of the financial statements and significant accounting policies (continued)

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

i) Initial recognition of financial instruments. All of the Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of the Group's financial instruments are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

j) Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

k) Held to maturity investments. Held to maturity investments are carried at amortised costs using the effective interest method, net of a provision for incurred impairment losses.

l) Cash and cash equivalents. Cash comprises cash in hand and cash held on demand with banks.

m) Trade receivables. Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

n) Value added tax. Value added tax related to sales was previously payable to tax authorities upon collection of receivables from customers, however starting from 1 January 2006 legislation in this area has changed requiring all companies to pay VAT based on accruals basis. Input VAT is generally reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

o) Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the actual cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

p) Property, plant and equipment. Property, plant and equipment are recorded at purchase price or construction cost. At each reporting date management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets' recoverable amount.

2 Basis of presentation of the financial statements and significant accounting policies (continued)

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Rolling stock	5-25
Machinery and equipment	5-20
Buildings	30
Office and other assets and equipment	5

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the statement of income as incurred.

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

q) Leases

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease liabilities. Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method.

The assets acquired under finance leases are depreciated over their useful life or over the lease term if the lease term is shorter and the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

For leases that carry a variable rate of interest; minimum lease payments are recognised based on the interest rate applicable at the date of inception of the lease and future changes in interest rates are recognised in the statement of income as they arise.

r) Borrowings. Borrowings are recognised initially at cost, which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2 Basis of presentation of the financial statements and significant accounting policies (continued)

s) Deferred income taxes. Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

t) Foreign currency transactions.

The individual financial statements of each Group's entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Russian Roubles ('RR'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

u) Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

At 31 December 2006, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was US dollar (USD) 1 = RR 26.33 (31 December 2005 USD 1 = RR 27.78). The official Euro to RR exchange rate at 31 December 2006, as determined by the Central Bank of the Russian Federation, was 34.69 (31 December 2005 – 34.18). The official Grivna to RR exchange rate at 31 December 2006, as determined by the Central Bank of the Russian Federation, was 5.22 (31 December 2005 – 5.67).

v) Provisions. Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

w) Net assets attributable to owner. The Company's equity owner has a right to request redemption of its interest in the Company in cash. The Company's obligation to redeem gives rise to a financial liability even though the redemption is conditional on the owner exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if the owner will withdraw from the Company. As a practical expedient, the Company measures the liability presented as 'Net assets attributable to owner' at the IFRS carrying value of the Group's net assets.

2 Basis of presentation of the financial statements and significant accounting policies (continued)

The liability is classified as non-current because the Company has an unconditional right to defer redemption for at least twelve months after the balance sheet date.

Distributions to owner are presented as a finance cost in the income statement and are recognised when declared. Distributions are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

x) Revenue recognition. Revenues are recognized when services have been rendered for concluded contracts, the price is fixed or determinable and collectibility reasonably assured. The revenues from transportation services are recognised in the period in which the services are provided net of VAT.

a) Transportation agency fee

The Company is a legal intermediary for transportation organizations and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Company's clients, are not included in sales or cost of sales. Consequently, only the Company's fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable.

b) Transportation services (operator's business)

The Company also organizes transportation for clients and provides similar services using its own or leased wagons. For this type of activity the whole amount of proceeds, net of VAT, is included in revenues.

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations (depending on terms of the contract, these fees may be recharged to customers, in which case the tariff is excluded from both revenues and cost of sales), depreciation, repairs and maintenance costs for owned and leased wagons and lease payments for wagons rented on the basis of operating leases. Revenues are measured at the fair value of the consideration received or receivable.

c) Revenues from operating lease of rolling stock

Revenue earned by the Company from wagons leased out under operating leases is recognised on a straight line basis over the term of operating rent agreements.

y) Employee benefits. In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

3 Critical accounting estimates, and judgements in applying accounting policies

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Useful lives of property, plant and equipment. Management estimates useful lives of rolling stock from 5 to 25 years based on its type, physical condition and industry standards. The actual useful lives may differ from these estimates depending on the intensity of the use of the rolling stock items.

(in thousands of Russian Roubles)

3 Critical accounting estimates, and judgements in applying accounting policies (continued)

Fair value of liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. This rate was estimated based on the movement in market interest rate (LIBOR) between the date on which liability was recognised and 31 December 2006. Refer to note 15 for the estimated fair values of borrowings and note 14 for estimated fair values of lease liabilities.

Impairment allowance on receivables. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the impairment allowance for doubtful debts.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

4 Adoption of new or revised standards and interpretations

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006. The impact of the adoption of these new and revised standards and interpretations is disclosed in the financial statements. At the balance sheet date of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosure
IAS 1	Amendment to IAS 1 (“Capital Disclosures”)
IFRS 4	Insurance Contracts – Revised implementation guidance
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group other than the additional matters noted as follows:

1. IAS 1: Additional disclosure requirements in connection with the Group’s objectives, policies and processes for managing capital and quantitative data about what the Group regards as capital.

2. IFRS 7: Additional disclosure requirements to enable users of the financial statements to evaluate the significance of financial instruments and their impact on the Group’s financial position and performance. IFRS 7 requires more disclosures in relation to all risks arising from financial instruments, including credit risk and liquidity risk. The standard also requires a sensitivity analysis of market risks and how changes for each type of market risk would have impacted profit or loss in the period.

(in thousands of Russian Roubles)

5 Balances and transactions with related parties

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party, exercise significant influence over the other party in making financial or operational decisions or the two parties are under common control as defined by IAS 24 “Related Party Disclosures”. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Transactions between related parties are provided on the same basis as transactions with third 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 at 31 December 2006 is detailed below:

Related party	Relationship
Neteller Holdings Ltd	100% owner from November 2005
Transwagonleasing Ltd	Joint venturer in Neteller Holdings Ltd from November 2005
Globaltrans Investment Ltd	Joint venturer in Neteller Holdings Ltd from November 2005
OOO "Intektrans"	Entity controlled by management of the Company
OAO "New Forwarding Company"	Subsidiary of “Globaltrans Investment Ltd”
Transportation Investments Holding Ltd	Controlling shareholder of “Globaltrans Investment Limited”
OOO "BaltTransServis"	Subsidiary of Transportation Investments Holding Ltd
ZAO "Severstaltrans"	Subsidiary of Transportation Investments Holding Ltd
OOO "Sevtechnotrans"	Subsidiary of Transportation Investments Holding Ltd
OOO "Severstaltrans-finance"	Subsidiary of Transportation Investments Holding Ltd
OOO "Spetstransgarant"	Associate (from May 2004 to May 2006)
OOO "Transgarant-Vostok"	Associate
OOO "Transnerudgarant"	Entity controlled by management of the Company
OOO "Transgarant-Export"	Entity controlled by management of the Company
OOO “Transgarant-NPK”	Entity controlled by management of the Company
OOO “Fertitrans”	Entity controlled by management of the Company
OOO “Marine Service Company”	Entity controlled by management of the Company
OOO “Elkom”	Entity controlled by management of the Company
OOO “NITEX”	Entity controlled by management of the Company
OOO “Transput”	Entity controlled by management of the Company
OOO “MMK-Trans”	Joint venture of a party executing significant influence over “Globaltrans Investment Ltd”
OOO "F-Trans"	Associate (since April 2004)
ZAO "Verhnedonskaya Promyshlennaya Company"	Associate
OAO “Severstal”	Entity controlled by one of the joint venturers in Transportation Investments Holding Ltd, related from October 2004
Severstal Export GmbH	Severstal Group Company, related from October 2004
ZAO “Severstal metiz”	Severstal Group Company, related from October 2004
OOO “Severstal-emal”	Severstal Group Company, related from October 2004
OAO “Karelsky okatysh”	Severstal Group Company, related from October 2004
OOO “Transdeka”	Associate (from June 2005)
Gushchin S.A.	General Director
Smislov S.P.	Chairman of the Board
Goncharov R.S.	Financial Director

(in thousands of Russian Roubles)

5 Balances and transactions with related parties (continued)

Balances and transactions with related parties of the Group as at and for the years ended 31 December 2006 and 2005 consist of the following:

i Balances with related parties:

Balance sheet item	Subject/transaction	2006	2005
Accounts receivable and prepayments:			
OAO “Severstal”	Receivables for transportation services	455	1,455
OAO “Severstal”	Advances for transportation services	12	5,475
OOO "Spetstransgarant"	Receivable for sale of property, plan and equipment	67,072	15,326
Severstal Export GmbH	Receivables for transportation services	-	650
Severstal Export GmbH	Advances for transportation services	-	3,981
General Director – Gushchin S.A.	Other accounts receivable	1,164	822
OOO “Transgarant-Vostok”	Receivables for transportation services	424	-
OOO “Transgarant-Vostok”	Advance for transportation services	14,998	-
OOO “Transgarant-Vostok”	Rent receivable	658	-
OOO “Transgarant-Vostok”	Receivable for sale of property, plan and equipment	112	-
OOO “Transgarant-Vostok”	Other receivables	275	-
OOO “Spetstransgarant”	Receivables for transportation services	5,406	-
OOO “Spetstransgarant”	Advance for transportation services	-	2,074
OOO “Spetstransgarant”	Other receivables	31	-
OAO “New Forwarding Company”	Receivables for transportation services	13	632
OAO “New Forwarding Company”	Rent receivable	1,284	-
OOO “Transgarant NPK”	Receivables for transportation services	38	-
OOO “Transnerudgarant”	Advance for transportation services	2,764	-
ZAO “Severstaltrans”	Advance for transportation services	2,006	-
ZAO “Severstaltrans”	Receivables for transportation services	3,463	
OOO “Fertitrans”	Rent receivable	-	1,591
OOO “Intektrans”	Receivable for sale of property, plan and equipment	35	59,500
OOO “Marine Service Company”	Other receivables	794	6,962
OOO “Transnerudgarant”	Advance for transportation services		15,063
OOO “BaltTransServis”	Advance for transportation services	134	-
OOO “Transgarant-Export”	Other receivables	3	-
OOO “Transgarant NPK”	Rent receivable	10	-
OOO “MMK-Trans”	Receivables for transportation services	22	-
OOO “MMK-Trans”	Other receivables	4	-
ZAO “Severstal metiz”	Advance for transportation services	666	-
ZAO “Severstal metiz”	Other receivables	5	-
Other	Trade accounts receivable	-	123
Other	Advances received	-	24
		101,848	**113,678**
Short term loans issued and promissory notes:			
ZAO “Universal TransGroup”	Loans issued at 11% p.a.	-	49,000
ZAO “Universal TransGroup”	Loans issued at 12% p.a.	-	99,301
OOO “Transnerudgarant”	Promissory notes, interest free	-	4,056
OOO “Transnerudgarant”	Loans issued at 11% p.a.	26,296	-
OOO “Spetstransgarant”	Loans issued at 14% p.a.	-	1,837
OOO “F-Trans”	Loans issued at 13% p.a.	500	500
Chairman of the Board –Smislov S.P.	Loans issued, interest free	560	-
OOO “Transgarant-Export”	Loans issued at 13% p.a.	907	84
OOO “Intektrans”	Loans issued at 12%	3	-
OOO “NITEX”	Loans issued at 15%	2,810	-
Other	Loans issued	-	64
		31,076	**154,842**

(in thousands of Russian Roubles)

5 Balances and transactions with related parties (continued)

Balance sheet item	Subject/transaction	2006	2005
Accounts payable and advances received:			
ZAO "Severstaltrans"	Accounts payable – transportation services	3,029	-
ZAO "Severstaltrans"	Other payables	51	-
OAO "Severstal"	Accounts payable – transportation services	2,114	2,544
OAO "Severstal"	Advances received	5	-
OAO "New Forwarding Company"	Accounts payable – transportation services	124	4
OAO "New Forwarding Company"	Accounts payable – repair of rolling stock	4	-
OOO "Sevtechnotrans"	Accounts payable – transportation services	3	3
OOO "Spetstransgarant"	Accounts payable – transportation services	102	73
OOO "Spetstransgarant"	Advances received	14	-
OOO "Transgarant - Export"	Advances received	17	-
OOO "Transgarant-Vostok"	Accounts payable – transportation services	5,247	27
OOO "Transgarant-Vostok"	Accounts payable – repair of rolling stock	10	10
OOO "Transgarant-Vostok"	Advances received – rent of rolling stock	-	6,194
OOO "Transgarant-Vostok"	Advances received	105	-
OOO "Transnerudgarant"	Other accounts payable		15,063
OOO "Intektrans"	Account payable – consulting services	-	1,300
OOO "NITEX"	Other accounts payable	4	-
OOO "MMK-Trans"	Accounts payable – transportation services	65	-
OOO "Intektrans"	Other accounts payable	17	-
OAO "Karelsky okatysh"	Accounts payable – transportation services	41	-
Other	Advances received	-	25
		10,952	**25,243**

Short-term borrowings:			
OOO "Severstaltrans-finance"	Unsecured loans at 10.5 % p.a. to finance operational activity, maturing on 13 March 2006	-	2,029,059

Short-term loans issued as at 31 December 2006 are stated net of provision of RR 23.3 mln (31 December 2005: RR 14.5 mln).

(in thousands of Russian Roubles)

ii Transactions with related parties:

Statement of income item	Subject/Transaction	2006	2005
Sales:			
OAO “Severstal”	Transportation services	58	228,574
Severstal export GmbH	Agent services	1,437	23,765
ZAO “Severstal metiz”	Transportation services	3,360	2,059
OOO "Spetstransgarant"	Resale of rolling stock	91,602	-
OOO “Severstal-emal”	Transportation services	-	852
OOO “Fertitrans”	Rent of rolling stock	4,068	13,294
OOO “Fertitrans”	Rent of other property	-	1,261
OOO “Neokont”	Transportation services	-	7,745
OOO “MMK-Trans”	Transportation services	22	995
OOO “Intektrans”	Rent of other property	-	637
OOO “Transnerudgarant”	Transportation services	5,440	-
OAO “New Forwarding Company”	Transportation services	3,029	6,009
OAO “New Forwarding Company”	Rent of rolling stock	7,697	-
ZAO "Severstaltrans"	Transportation services	8,161	1,068
OOO "Spetstransgarant"	Rent of rolling stock	5,178	9,959
OOO "Spetstransgarant"	Transportation services	7,944	2,669
OOO "Spetstransgarant"	Agent services	43	-
OOO "Transgarant-Vostok"	Agent services	105	907
OOO "Transgarant-Vostok"	Rent of rolling stock	11,442	50,567
OOO "Transgarant-Vostok"	Resale of rolling stock	-	18,893
OOO "Transgarant-Vostok"	Transportation services	194,486	139,128
OOO "Transgarant-Vostok"	Rent of other property	-	177
OOO "Transgarant-Vostok"	Other services	1,586	-
OOO "Transnerudgarant"	Transportation services	5,440	-
OOO “BaltTransServis”	Transportation services	1,448	-
OAO “Karelsky okatysh”	Transportation services	-	979
OOO "Spetstransgarant"	Other services	25	-
		352,571	**509,538**
Cost of sales:			
OAO “New Forwarding Company”	Rent of rolling stock	-	5,268
OAO “New Forwarding Company”	Transportation services	540	172
ZAO "Severstaltrans"	Transportation services	-	176
OAO “Severstal”	Transportation services	-	9,900
OAO “Severstal”	Rent of rolling stock	4	1,580
OOO "Spetstransgarant"	Transportation services	2,278	2,212
OOO “NITEX”	Transportation services	145	-
OAO “Karelsky okatysh”	Transportation services	115	-
OOO “MMK-Trans”	Transportation services	-	28
OOO "Transgarant-Vostok"	Rent of rolling stock	22	-
OOO "Transgarant-Vostok"	Repair of rolling stock	435	-
OOO "Transgarant-Vostok"	Transportation services	751	36
		4,290	**19,372**

(in thousands of Russian Roubles)

5 Balances and transactions with related parties (continued)

		2006	2005
Other operating income/expense			
OOO “Intektrans”	Sale of property, plant and equipment (at a profit of RR 4,676thousand)	-	56,756
OOO "Spetstransgarant"	Sale of property, plant and equipment (at a profit RR 18,421 thousand)	226,246	-
OOO “Transgarant-Vostok”	Sale of property, plant and equipment (at a profit RR 105,384 thousand)	185,224	26,108
ZAO “Verkhedonskaya promyshlennya company”	Sale of investments	(85)	-
General director - Gushchin S.A.	Sale of property, plant and equipment (at a profit 122 thousand)	341	10,513
		411,726	**93,377**
Interest expense:			
OOO “Sevtechnotrans”	Finance charge on lease liability	49,503	24,722
OOO "Severstaltrans-finance"	Interest expense on borrowings	-	141,848
OOO "Transgarant-Vostok"	Interest expense on borrowings	-	49
		49,503	**166,619**
Interest income:			
OOO “Intektrans”	Interest income on loans issued	5,486	-
OOO “Spetstransgarant”	Interest income on loans issued	246	-
OOO “Transnerudgarant”	Interest income on loans issued	1,499	-
OOO “Transgarant – Export”	Interest income on loans issued	97	-
OOO “NITEX”	Interest income on loans issued	225	-
OOO “Transput”	Interest income on loans issued	124	-
		7,677	-

iii Guarantees issued:

As of 31 December 2006 the Company has provided guarantees free of charge on the following transactions (all provided during the year ended 31 December 2006):

- Loan from OOO “Pervy Cheshsko-Rossiysky bank”, provided to OOO “Transgarant-Vostok” in the amount of USD 2 million (RR 57.56 million) expiring in 2007;
- Finance Lease contracts with OOO “Millenium Leasing” for financing of purchase of rolling stock by OOO “Spetstransgarant” in the amount of RR 4.53 million, expiring in 2007;

iv Directors’ compensation:

Compensation paid to directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. Total compensation paid to 6 directors included in general and administrative expenses in the consolidated statement of operations for the year ended 31 December 2006 amounted to RR 37 million (2005: RR 11.6 million to 6 directors).

(in thousands of Russian Roubles)

6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks and short-term bank deposits:

	2006	2005
RR denominated cash on hand and balances with banks	192,645	64,115
US dollar denominated cash balances with banks	26,352	2,057
Ukraine Grivna denominated cash balances with banks	733	160
	219,730	**66,332**

7 Loans issued

Loans issued are denominated in Russian Roubles and carry average effective interest rates of 11.5% (2005: 12%). All loans are repayable within one year. The fair value of loans approximates their carrying amount.

8 Accounts receivable - third parties

Trade accounts receivable as at 31 December 2006 are stated net of impairment allowance of RR 268.7 mln (31 December 2005: RR 29 mln).

RR 720 thousands and RR 531 mln of trade receivables are denominated in USD as at 31 December 2006 and 31 December 2005, respectively.

9 Prepayments

Prepayments were made to the following organizations:

	2006	2005
Prepayment for transportation services:		
Railway organisations, branches of OAO “Russian Railways”	343,305	332,921
Other prepayments	42,558	105,141
	385,863	**438,062**

In 2006 and 2005 the Group made prepayments for transportation services expected to be received within one month. The tariff of OAO “Russian Railways” for transportation of goods is based on Russian Roubles.

10 Investments in associated undertaking

	2006	2005
Balance at 1 January	**32,898**	**10,920**
Addition	52	15
Share of income from associate	30,873	21,963
Balance at 31 December	**63,823**	**32,898**

Details of the Group’s associate are as follows

Name of associate	**Principal activity**	**Place on incorporation**	**Ownership interest**	
			2006	2005
			(%)	(%)
OOO “Transgarant – Vostok”	Transportation	Russia	45	45

(in thousands of Russian Roubles)

10 Investments in associated undertaking (continued)

The Group's interest in its associate, which is unlisted, was as follows:

	2006	2005
Total assets	682,490	318,013
Total liabilities	540,776	257,938
Net assets	141,714	60,075
Group's share of associate's net assets	63,823	32,898
Total revenue	**1,395,587**	**731,247**
Total profit for period	**68,604**	**34,119**
Share of associate's profit for period	30,873	21,963

11 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Rolling stock	Buildings	Machinery and equipment	Other	Construction in progress	TOTAL
Cost						
31 December 2004	2,005,455	12,038	39,072	86,150	47,716	2,190,431
Additions	1,844,782	9,116	22,779	27,649	174,828	2,079,154
Disposals	(24,494)	(12,038)	(50)	(55,560)	-	(92,142)
Transfer	47,715	-	-	-	(47,715)	-
31 December 2005	3,873,458	9,116	61,801	58,239	174,829	4,177,443
Translation difference	(3,265)	-	(76)	(135)		(3,476)
Additions	1,805,261	46,446	29,341	36,636	2,629	1,920,313
Disposals	(397,297)	-	(3,724)	(12,511)	(33,057)	(446,589)
Transfer	123,418	8,591	219	61	(132,289)	-
31 December 2006	**5,401,575**	**64,153**	**87,561**	**82,290**	**12,112**	**5,647,691**
Accumulated Depreciation						
31 December 2004	(129,208)	(120)	(2,179)	(10,746)	-	(142,253)
Depreciation charge	(198,460)	(439)	(3,743)	(11,576)	-	(214,218)
Disposals	3,547	158	3	2,353	-	6,061
31 December 2005	(324,121)	(401)	(5,919)	(19,969)	-	(350,410)
Translation difference	397	-	4	40	-	441
Depreciation charge	(268,071)	(10,807)	(3,776)	(16,290)	-	(298,944)
Disposals	43,749	-	423	7,752	-	51,924
31 December 2006	**(548,046)**	**(11,208)**	**(9,268)**	**(28,467)**	**-**	**(596,989)**
Net Book Value						
31 December 2004	1,876,247	11,918	36,893	75,404	47,716	2,048,178
31 December 2005	3,549,337	8,715	55,882	38,270	174,829	3,827,033
31 December 2006	**4,853,529**	**52,945**	**78,293**	**53,823**	**12,112**	**5,050,702**

During the year ended 31 December 2006 the Group did not capitalise any interest costs on borrowings into the cost of property, plant and equipment (2005: nil).

(in thousands of Russian Roubles)

11 Property, plant and equipment (continued)

Pledged assets

	2006	2006	2006	2005	2005	2005
Description	**Number of pledged items**	**Total number of items**	**Carrying value of pledged assets RR million**	**Number of pledged items**	**Total number of items**	**Carrying value of pledged assets RR million**
Tank wagons	695	1,103	499	569	1,275	479
Boxcars	721	894	799	-	-	-
Pellet-wagons	1,829	2,420	262	1,274	1,962	160
Locomotive	1	5	1.6	3	5	5.3
Grain-carriers	27	46	18.9	22	27	19.9
Open-wagons	529	2,030	193	285	982	67.8
Carriage truck for pipes of large diameter	320	320	450	-	-	-
Carriage truck for sheet products	20	20	28	-	-	-
Total:			**2,251.5**			**732**

The Group commissioned an independent valuation of major categories of fixed assets as at 1 October 2006. According to the valuation performed the total fair value of fixed assets owned by the Group is RR 7.079 billion, including RR 6.555 billion attributable to rolling stock.

Leased assets

The Group has leased 1,958 open wagons, 100 steel pellet hopper wagons and 70 mineral hopper wagons from leasing companies under finance lease agreement. The total book value of rolling stock held under finance leases at the year end amounted to RR 2.098 billion.

Result on disposal of fixed assets

During the year the Group disposed of rolling stock with net book value of 397 mln to related parties resulting in a profit on disposal RR 121.7 mln.

Insured assets

As at 31 December 2006 the Company's rolling stock with a net book value of RUR 2.334 billion was insured for loss of these assets with Russian insurance companies. The total insured value is RUR 3.66 billion.

(in thousands of Russian Roubles)

12 Acquisition and minority interests

Companies acquired	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition
			(%)	
ZAO “Universal Transgroup” (JV)	Rolling stock transportation	14 April 2006	50	111,092
OAO “Stroyopttorg”	Trading of construction materials	29 March 2006	75	9,659
				120,751

	OAO “Stroyoptorg”		ZAO “Universal Transgroup”		
	Book value on acquisition	Fair value on acquisition	Book value on acquisition (50%)	Fair value on acquisition (50%)	Total Fair value on acquisition
Current assets:					
Cash & cash equivalents	41	41	12,587	12,587	12,628
Trade & other receivables	1,479	1,479	89,080	89,080	90,559
Short term investments	-	-	4,912	4,912	4,912
Inventories	1,619	1,619	174	174	1,793
Non-current assets:					
Fixed assets	12,585	12,585	300,337	370,404	382,989
Current liabilities:					
Trade & other payables	(6,519)	(6,519)	(43,761)	(43,761)	(50,280)
Loans	-	-	(280,107)	(280,107)	(280,107)
Non-Current liabilities:					
Deferred tax liabilities	(2,954)	(2,954)	-	-	(2,954)
	6,251	6,251	83,222	153,289	159,540
Goodwill on acquisition		3,408		(42,197)	(38,789)
Goodwill written off		(3,408)		42,197	
		-		-	
Cost of acquisition					**120,751**

The fair value of ZAO “Universal Transgroup’s” fixed assets at the date of acquisition has been arrived at on the basis of a valuation carried out at that date by ZAO “KPMG”, independent valuers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

Minority Interest Stroyoptorg

Minority interest at acquisition date	2,084
Minority Interest share of loss	(1,134)
Closing Minority interest	**950**

(in thousands of Russian Roubles)

13 Other receivables

Other receivables include US Dollar denominated promissory notes purchased by the Group as a deposit for the guarantee issued by one of the Group's bank under a lease agreement. As at the end of the year there were 6 promissory notes held by the Group for an amount of RR 192.2 mln (7.3 million US Dollars). Promissory notes bear interest rates of 5% and 5.25% per annum and are receivable during the first half of 2007.

14 Leases

Operating leases

The Group leases under operating lease terms rolling stock from a number of related parties (Note 5) and other companies. All lease contracts are cancellable and are for periods of 12 months with renewal options. Lease receipts are collected monthly, one month in advance.

Finance leases

The Group partially finances the purchase of wagons through leasing and sale-leaseback transactions with leasing companies. All the lease agreements provide for ownership transfer of assets to the Group at the end of the lease terms for a nominal consideration. In 2006 the Group entered into a leasing contracts with OOO "Hansa Leasing", OOO "LK MMB", OOO "BSGV Leasing", ZAO "Gazprombank Leasing", OOO "Leasing Prom Hold", and OOO "Sevtechnotrans" for financing of the purchase of open wagons, steel pellets hopper wagons and mineral hopper wagons. The average effective interest rate on the lease liability is 13.62% (2005: 14.12% Minimum lease payments and future interest element are estimated based on the rates applicable to each individual lease contract.

The lease payments as at 31 December 2006 are scheduled as follows:

	2006 Minimum lease payments	**2006 Present value of minimum lease payments**	**2005 Minimum lease payments**	**2005 Present value of minimum lease payments**
Within one year	704,594	468,635	357,640	230,648
Two to five years	666,645	498,226	953,137	763,553
Over five years	163,893	221,094	8,748	8,083
	1,535,132	1,187,955	1,319,525	1,002,284
Less: future finance charges	(347,177)		(317,241)	
Present value of lease obligations	1,187,955		1,002,284	
Less amount due for settlement within 12 months		(468,635)		(230,648)
Amount due for settlement after 12 months		719,320		771,636

Lease liabilities are predominantly denominated in US Dollars.

(in thousands of Russian Roubles)

15 Short-term and long-term borrowings

The borrowings of the Group are analysed as follows:

	Average interest rate,%			
	2006	**2005**	**2006**	**2005**
USD denominated short-term loans				
Financial institution	8.02	9.36	371,472	43,174
Interest liability for loans from non-financial institution	-	-	41	62,172
Plus: current portion of long-term loans	-	-	111,400	218,747
Total short-term borrowings denominated in USD			482,913	324,093
Rouble denominated short-term loans				
Financial institution	9.79	10.88	825,000	485,177
Non-financial institution	-	10.00	-	24,227
Interest liability for loans from financial institution	-	-	324	3,614
Plus: current portion of long-term loans	-	-	212,691	186,000
Total short-term borrowings denominated in Roubles	-	-	1,038,015	699,018
Total short-term borrowings-third parties			**1,520,928**	**1,023,111**
USD denominated long-term loans				
Financial institution	9.05	12.00	2,802,637	369,692
Non-financial institution	-	10.00	-	297,248
Less: current portion of long-term loans	-	-	(212,691)	(218,747)
Total long-term borrowings denominated in USD	-	-	2,589,946	448,193
Rouble denominated long-term loans				
Financial institution	10.01	9.21	132,306	186,000
Non-financial institution	6.00	-	18,350	-
Less: current portion of long-term loans	-	-	(111,400)	(186,000)
Total long-term borrowings denominated in Roubles			39,256	-
Total long-term borrowings-third parties			**2,629,202**	**448,193**

Security: As at 31 December 2006 the Group has pledged its rolling stock as security for loans from financial institutions. For further details see note 11.

Maturity analysis

	2006	**2005**
During the first year	1,520,928	1,023,111
More than one year but not more than two years	2,235,544	263,626
More than two years but not more than three years	196,824	184,567
More than three years but not more than four years	196,834	-
	4,150,130	**1,471,304**

16 Other liabilities

	2006	**2005**
Value added taxes (deferred)	30,908	21,948
Payroll and related taxes	8,892	15,139
Property tax	17,931	16,824
Other payables	64,039	29,642
	121,770	**83,553**

All the above liabilities are denominated in roubles.

(in thousands of Russian Roubles)

17 Charter capital

Charter capital

As of 31 December 2006 and 2005 the Company's authorized and registered charter capital was RR 880,000 thousand and RR 600,000 thousand respectively (see below). As of 31 December 2006 it comprised of one participatory holding with a nominal value of RR 880,000 thousand, having 100% voting and dividends rights. The participatory share has been issued and is fully paid. The Company did not declare or distribute dividends in 2006 or 2005.

By the date of signature of these financial statements, no decision has been taken on declaration of dividends in respect of 2006.

In May 2006 OOO "Firma Transgarant" increased its charter capital and received an additional capital contribution from its owner in the amount of RUR 280 mln.

18 Revenue

	2006	**2005**
Transportation services (operator's business)	3,591,941	2,704,468
Transportation agency fees	235,484	795,830
Operating lease of rolling stock	185,108	162,180
Resale of rolling stock	77,885	-
Other sales	39,982	23,375
	4,130,400	**3,685,853**

19 Cost of sales

	2006	**2005**
Railway infrastructure tariff and transportation services	1,477,446	1,524,861
Operating lease of rolling stock	507,426	620,099
Depreciation	298,944	214,218
Payroll	265,639	213,641
Rolling stock repair and maintenance costs	234,427	133,268
Taxes other than on income	150,199	55,543
Office rent cost	54,806	37,727
Raw materials	108,864	19,720
Communication costs	29,992	12,908
Insurance	9,282	2,409
Impairment allowance	239,916	2,133
Cost of goods resold	83,515	-
Other operating expenses	27,178	8,398
	3,487,634	**2,844,925**

All depreciation expense and staff costs are included in cost of sales. Staff costs include RR 232,450 thousand (2005: RR 184,531 thousand) of payroll cost and 33,189 thousand (2005: RR 29,110 thousand) of payments to state budget and government pension scheme.

Included in the impairment charge are amounts arising from allowance against SGU Overseas Ltd – RR 143 mln, SpetsTransgarant – RR 54 mln and other debtors over more then one year old – RR 71 mln.

(in thousands of Russian Roubles)

20 Interest expense

	2006	2005
Interest on borrowings	379,365	312,829
Finance charge on lease liability	158,127	132,619
Interest expense	**537,492**	**445,448**

21 Taxation

	2006	2005
Profits tax expense – current Russia	(131,640)	(21,909)
Profits tax expense – overseas	(5,270)	-
Deferred tax expense	(11,462)	(44,472)
Income tax expense	**(148,372)**	**(66,381)**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2006	2005
Profit before income tax	490,031	314,027
Profit before income tax overseas	(43,979)	-
Profit before income tax Russia	446,052	314,027
Theoretical tax charge at statutory rate (24%)	(107,052)	(75,366)
Tax effect of items which are not deductible for taxation purposes	(24,588)	8,985
Tax charge Russia	**(131,640)**	**(66,381)**

The Company has been subject to a tax rate of 24% since 1 January 2002.

Not deductible expenses comprise certain consulting services, insurance and advertising expenses.

The movement in deferred tax assets and liabilities is as follows:

Tax effects of taxable temporary differences:	**31 December 2004**	**Differences recognised during the year ended 31 December 2005**	**31 December 2005**	**Differences recognised during the year ended 31 December 2006**	**31 December 2006**
Lease liability	101,734	132,294	234,028	116,824	350,852
Property, plant and equipment	(133,195)	(134,820)	(268,015)	(187,433)	(455,448)
Accounts payable	28,196	(24,896)	3,300	5,134	8,434
Inventory	2,938	(8,407)	(5,469)	5,085	(384)
Investments	2,332	(10,195)	(7,863)	1,012	(6,851)
Accounts receivable	9,451	(1,806)	7,645	52,756	60,401
Borrowings	(509)	3,358	2,849	(4,840)	(1,991)
Total net deferred tax asset / (liability)	**10,947**	**(44,472)**	**(33,525)**	**(11,462)**	**(44,987)**

22 Contingencies, commitments and operating risks

i Contractual commitments and guarantees

As at 31 December 2006 the Company did not have any contractual commitments for the purchase of property, plant and equipment from third parties (2005: nil).

22 Contingencies, commitments and operating risks (continued)

ii Taxation

The Group has significant exposure to Russian tax, currency and customs legislation. These are subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. 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.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. Management believe all price differences are justifiable by diversity of services and complex tariff structure. There is no formal guidance as to how these rules should be applied in practice.

As at 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax and currency positions will be sustained.

iii Value Added Tax

As the Group is providing services that are subject to VAT at 0% in Russia, it reclaims significant amounts of VAT on a monthly basis. However the Tax Authorities in Russia have adopted a policy of delaying payments and possible off sets against a company's tax liabilities. As a result of this policy many claims are rejected on procedural grounds such as incorrect completion of application forms. Under such circumstances, companies are obliged to take tax authorities to court in order to obtain repayment

The Group regularly applies to court to get VAT reimbursed. As at the end of the year tax authorities had rejected over RR 90 million claimed by the Group out of which 72 million was already confirmed by the court of first instance in favour of the Group. Past experience shows most claims are eventually resolved in favour of the Group and therefore management has decided not to show any liabilities in respect of VAT initially rejected by the tax authorities. However, the possibility remains that the whole amount or part of the amount outstanding may not be recoverable.

iv Insurance policies

The Group holds insurance policies in relation to all vehicles and in respect of public (third party) liability for vehicles. The Group does not have full insurance for business interruption or third party liability in respect of property or environmental damage.

v Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in thousands of Russian Roubles)

22 Contingencies, commitments and operating risks (continued)

vi Legal proceedings

During the year, the Group was not involved in any court proceedings. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these financial statements.

vii Operating environment of the Group

The Group is significantly exposed to the economic environment of the Russian Federation which continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and restrictive currency controls. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

viii Operating lease commitments

The Group has committed to operating lease agreements with amounts falling due as follow:

2007	410,121
2008	275,778
2009	95,603
2010	44,784
2011	32,912

23 Joint ventures

The Group has the following significant interests in joint ventures:

50 per cent share of ownership ZAO “Universal Trans Group”

	2006
Current assets	87,999
Non-current assets	435,878
Current liabilities	136,566
Non-current liabilities	276,837
Income	179,124
Expenses	151,875

24 Financial risks and fair values of financial instruments

i Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and prepayments. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Despite this an element of credit risk remains.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

ii Foreign exchange risk

The Group has a substantial amount of foreign currency denominated borrowings (Note 15) and is thus exposed to foreign exchange risk. The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations.

iii Interest rate risk

The Group's income and operating cash flows depends on changes in market interest rates. The Group is exposed to fair value interest rate risk through market value fluctuations of interest-bearing borrowings (Note 15), lease liability (Note 14) and interest bearing assets (Notes 7 and 13), the majority of which are at fixed interest rates.

iv Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair value of financial assets and liabilities carried at amortised costs is estimated by discounting the future contractual cash flows expected to be received at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity.

Management believes that carrying value of financial assets and liabilities does not significantly differs to it fair value.