

**Open Joint Stock Company
“TransContainer”**

Consolidated Financial Statements

*As of 31 December 2006 and for the period
from 4 March (Inception) to 31 December 2006*

OJSC "TransContainer"

Consolidated Financial Statements

For the Year Ended 31 December 2006

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Independent Auditors' Report

To the Shareholders of Open Joint Stock Company "TransContainer"

We have audited the accompanying consolidated financial statements of OJSC "TransContainer" and its joint venture (hereinafter "the Company"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from 4 March 2006 (inception) through 31 December 2006, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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


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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and its financial performance and its cash flows for the period from 4 March 2006 (inception) through 31 December 2006 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 17 to the consolidated financial statements, which discloses a significant concentration of the Company's business transactions with related parties.



30 September 2007

OJSC "TransContainer"

Consolidated Balance Sheet as of 31 December 2006

(in thousands of Russian Roubles)

	Notes	
ASSETS		
Non-current assets		
Property, plant and equipment	4	11,943,461
Intangible assets		35,179
Total non-current assets		<u>11,978,640</u>
Current assets		
Inventories		48,985
Trade and other receivables	5	927,200
Receivables from shareholder	13	2,141,996
Prepayments and other current assets	6	864,861
Prepaid income tax		13,564
Short-term bank deposits	17	500,000
Cash and cash equivalents	7	1,231,980
Total current assets		<u>5,728,586</u>
Total assets		<u>17,707,226</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	13	13,894,778
Other reserves	13	(2,254,346)
Retained earnings		1,241,459
Total equity		<u>12,881,891</u>
Non-current liabilities		
Finance lease obligations, net of current maturities	8	407,939
Employee benefit liability	9	237,378
Deferred tax liability	16	1,838,388
Total non-current liabilities		<u>2,483,705</u>
Current liabilities		
Trade and other payables	10	1,750,590
Income tax payable		26,785
Taxes other than income tax payable	11	145,456
Finance lease obligations, current maturities	8	135,803
Accrued and other liabilities	12	282,996
Total current liabilities		<u>2,341,630</u>
Total equity and liabilities		<u>17,707,226</u>

/ Baskakov P.V.

Kalmykov K.S.

30 September 2007

General Director

Chief Accountant

The accompanying notes on pages 6 to 35 are an integral part of these consolidated financial statements.

OJSC "TransContainer"

Consolidated Statement of Income

For the Period from 4 March (Inception) to 31 December 2006

(in thousands of Russian Roubles)

	Notes	
Revenues	14	5,774,146
Operating expenses		
Freight and transportation services		(1,113,612)
Payroll and related charges		(806,133)
Depreciation and amortisation		(735,223)
Materials, repair and maintenance		(661,443)
Taxes other than income tax		(222,868)
Rent		(159,208)
Bad debt reserve		(19,164)
Other expenses, net	15	<u>(317,096)</u>
Total operating expenses		<u>(4,034,747)</u>
Operating income		1,739,399
Interest expense on finance lease obligations		(55,307)
Interest income		2,396
Foreign exchange loss		<u>(2,921)</u>
Profit before income tax		1,683,567
Income tax expense	16	<u>(442,108)</u>
Profit for the period		<u>1,241,459</u>

/ Baskakov P.V.

Kalmykov K.S.

30 September 2007



General Director

Chief Accountant

The accompanying notes on pages 6 to 35 are an integral part of these consolidated financial statements.

OJSC "TransContainer"

Consolidated Statement of Cash Flows

For the Period from 4 March (Inception) to 31 December 2006

(in thousands of Russian Roubles)

	Notes
Cash flows from operating activities:	
Profit before income tax	1,683,567
Adjustments for:	
Depreciation and amortisation	735,223
Bad debt reserve	19,164
Gain on disposal of property, plant, equipment	(1,203)
Impairment reserve	3,708
Interest expense, net	52,911
Foreign exchange loss on cash and cash equivalents balance	2,921
Provision for tax liabilities	94,835
Operating cash flows before working capital changes	2,591,126
(Increase) in inventories	(48,985)
(Increase) in trade and other receivables	(943,968)
(Increase) in prepayments and other current assets	(799,647)
Increase in trade and other payables	1,750,590
Increase in taxes other than income tax	145,456
Increase in accrued and other liabilities	186,399
Increase in employee benefit obligations	19,858
Net cash from operating activities before income taxes	2,900,829
Interest paid	(54,509)
Income tax paid	(620,190)
Net cash from operating activities	2,226,130
Cash flows from investing activities	
Capital expenditure	(413,210)
Proceeds from disposal of property, plant and equipment	1,798
Short-term bank deposits	(500,000)
Purchase of intangibles	(36,450)
Cash collected for shares issued	18,007
Net cash (used in) investing activities	(929,855)
Cash flows from financing activities	
Repayment of finance lease obligations	(61,374)
Net cash (used in) financing activities	(61,374)
Net increase in cash and cash equivalents	1,234,901
Cash and cash equivalents at the beginning of the period	-
Foreign exchange loss on cash and cash equivalents	(2,921)
Cash and cash equivalents at the end of the period	7 1,231,980

Baskakov P.V.

General Director

Kalmykov K.S.

Chief Accountant

30 September 2007

The accompanying notes on pages 6 to 35 are an integral part of these consolidated financial statements.

OJSC "TransContainer"

Consolidated Statement of Changes in Equity

For the Period from 4 March (Inception) to 31 December 2006

(in thousands of Russian Roubles)

	Notes	Share capital	Other reserves	Retained earnings	Total
As of 4 March 2006 (inception)		-	-	-	-
Issue of share capital	13	13,894,778	(2,254,346)	-	11,640,432
Profit for the period		-	-	1,241,459	1,241,459
Balance at 31 December 2006		13,894,778	(2,254,346)	1,241,459	12,881,891

/ Baskakov P.V.

Kalmykov K.S.

30 September 2007



General Director

Chief Accountant

The accompanying notes on pages 6 to 35 are an integral part of these consolidated financial statements.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements

as of 31 December 2006 and for the period
from 4 March (inception) to 31 December 2006

(in thousands of Russian Roubles)

1. Description of Business and Russian Environment

Corporate Information

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 Railroads" ("RZD"), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD is contributing to the share capital of the Company containers, flatcars, buildings and constructions in the amount of Rbls 13,057,061, the amounts of VAT related to these assets of Rbls 104,001, and cash of Rbls 991,097. The amount of contributions receivable as of 31 December 2006 equated to Rbls 2,141,996 (for details refer to Note 13). Further, employees previously employed by RZD were hired by the Company. With regard to these employees the Company assumed certain employee benefit liabilities. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a forwarding agent.

TransContainer's principal activities, which largely commenced from 1 July 2006, include container shipping and intermodal services using rolling stock and containers. The Company operates 47 container terminals along the railway network in Russia. As of 31 December 2006 the Company operated 20 branches located in the Russian Federation and one representative office in Belorussia. The registered office of the Company is located at 6/2, Kalanchevskaya street, Moscow, 107174, Russian Federation.

In 2006 the Company together with VR Ltd., a Finnish rail carrier, established a joint venture, Oy TransContainer Scandinavia Ltd., registered in Finland, to handle containerized shipments between Finland and Russia.

The consolidated financial statements of OJSC "TransContainer" and its joint venture "Oy TransContainer Scandinavia Ltd." (together referred as to "the Group") as of 31 December 2006 and for the period from 4 March 2006 (inception) through 31 December 2006 were authorized for issue by the General Director of the Company on 30 September 2007.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

2. Basis of Preparation of the Financial Statements

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of Accounting

These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its joint venture. Such financial statements are prepared in accordance with the statutory accounting principles adopted in the entity's country of incorporation.

The Company maintains its accounting records in Russian Roubles and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's books, which are appropriate to present the financial position, results of operations and cash flows of the Company and its joint venture in accordance with IFRS. The principal adjustments relate to valuation of unrecoverable assets, valuation and depreciation of property, plant and equipment, deferred income taxes, recognition of employee benefits, use of fair values and accounting for business combinations.

Basis of Accounting for Formation of the Company

The transfer by RZD of certain container shipping activities and the related selected assets and liabilities, and formation of the Company was treated as a business combination involving entities under common control, and was accounted for using the purchase method of accounting.

Accordingly, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at 30 June 2006, which was determined to be the acquisition date.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

2. Basis of Preparation of the Financial Statements (continued)

Basis of Accounting for Formation of the Company (continued)

The fair value of the identifiable assets and liabilities as at the date of acquisition were as follows:

	Fair value recognised on acquisition	Carrying value
Property, plant and equipment	13,057,061	13,057,061
VAT receivable	104,001	-
Cash	991,097	991,097
	14,152,159	14,048,158
Employee benefit obligations	(217,520)	(217,520)
Deferred tax liability	(2,294,207)	(2,294,207)
	(2,511,727)	(2,511,727)
Net assets	11,640,432	11,536,431
Total consideration (A)	11,640,432	
(A) Nominal value of shares issued	13,894,778	
Less: difference between the fair value of net assets acquired and nominal value of shares issued	(2,254,346)	
	11,640,432	

The shares issued by Transcontainer are unquoted and their fair value cannot be reliably measured. Accordingly, as there is no goodwill in the business being contributed, the cost of the business combination was determined by reference to the fair value of net assets acquired. The difference between the fair values of the net assets contributed to and the nominal value of shares issued by the Company was recorded in equity as other reserves.

Under the accounting policy selected by RZD, property, plant and equipment are measured at their fair values. Accordingly, the carrying values of these assets do not differ from their fair values at acquisition date.

Management concluded that because the activities (including tariff setting policies) of the Company differ significantly from those undertaken within RZD, it is impracticable to assess the amount of revenues and profit for the Company as if the combination had taken place at the beginning of the year.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

2. Basis of Preparation of the Financial Statements (continued)

Accounting for Interest in a Joint Venture

The Company's interest in a joint venture is recognised using proportional consolidation whereby the Company's share of an entity's individual balances are combined line-by-line with similar items into the Group financial statements. The consolidated statement of income of the Group includes the Company's share of the income and expenses of the jointly controlled entity. The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over a jointly controlled entity. As of 31 December 2006 and for the period then ended the joint venture has not yet commenced operating activities and, consequently, the effects of application of proportionate consolidation method was immaterial.

Functional Currency

The consolidated financial statements are presented in Russian Roubles (Rbls), which is the Company's functional and presentation currency. Functional currency for each Group companies has been determined as the currency of the primary economic environment in which the company operates.

Basis of Measurement

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below and further except for the effects of application of purchase method of accounting with regard to assets acquired and liabilities assumed at the formation of the Company.

IFRSs and IFRIC Interpretations not yet Effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1 (amended 2005) "Presentation of Financial Statements – Capital Disclosures";
- IAS 23 (Revised) "Borrowing Costs";
- 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";
- IFRIC Interpretation 14 IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

IFRS 7 "Financial Instruments: Disclosures" replaces the disclosure requirements of IAS 32 and must be applied for annual reporting periods that commence on or after 1 January 2007.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

2. Basis of Preparation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations not yet Effective (continued)

The amendment of IAS 1 "Presentation of Financial Statements – Capital Disclosures" requires disclosures regarding an entity's objectives, policies and processes for managing capital. The provisions are effective for reporting periods beginning on or after 1 January 2007.

IAS 23 (Revised) removed the option of immediate recognition as an expense of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009.

IFRS 8 "Operating Segments" is effective for annual periods beginning on or after 1 January 2009 and requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The standard eliminated the principle of identification of two sets of segments, and requires identifying the operating segments. Further, the standard revised the principle of measurement of the amounts reported for each operating segment item by requiring that such amounts to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. In addition, the standard requires a disclosure of factors used to identify the entity's operating segments.

IFRIC 8 clarifies that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instrument granted, under IFRIC 8 this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. IFRIC 8 becomes effective for financial years beginning on or after 1 May 2006.

IFRIC 9 clarifies that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity shall apply this interpretation for annual periods beginning on or after 1 June 2006.

Applying IFRIC 10, an entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. An entity shall apply this interpretation for annual periods beginning on or after 1 November 2006.

IFRIC 11 addresses the issues whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

2. Basis of Preparation of the Financial Statements (continued)

IFRSs and IFRIC Interpretations not yet Effective (continued)

IFRIC 12 is relevant for private sector entities that provide public sector services such as roads, airports, energy and water supply under a concession arrangement. Under such arrangements, control of the assets under concession is not necessarily in private hands, but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. In the private sector operator's balance sheet, the assets are not recognized as property, plant and equipment, but as financial and/or intangible assets depending on the nature of the arrangement. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

IFRIC 14 addresses the measurement of defined benefit plan assets and accounting for an obligation under a minimum funding requirement. An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Company's result of operation and financial positions in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the accompanying financial statements. Further, adoption of IFRS 8 will affect the segment reporting disclosures in the note to the financial statements.

3. Summary of Significant Accounting Policies

3.1 Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments classified as held for trading are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income. During the period the Company did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. During the period the Group did not hold any investments in this category.

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 amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.1 Investments and Other Financial Assets (continued)

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of income. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of income. During the period the Company did not hold any investments in this category.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis or other valuation models. When due to the nature of the investment, the reliable determination of its fair value is impracticable by applying valuation techniques, such investments are stated at cost.

3.2 Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

3.3 Trade and Other Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for any uncollectible amounts. Allowance is made when there is objective evidence that the Group will not be able to collect the debts.

3.4 Value Added Tax

Output value added tax (VAT) related to revenues 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 export services provided related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognized 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.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.5 Inventories

Inventories are valued at the lower of cost as determined by the weighted average method, or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Inventories are reported net of reserves for slow moving or obsolete items.

3.6 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. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred if the recognition criteria are met. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the statement of income. 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 asset's recoverable amount.

Depreciation is calculated on a straight-line basis. The depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings	20 - 80
Constructions	10 - 45
Containers	15 - 16
Flatcars	32
Plant and machinery , equipment	2 - 25
Motor vehicles	3 - 10
Land	Non depreciable

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Subsequent expenditures relating to an item of property, plant and equipment, which qualify for recognition as assets are capitalized.

When each major inspection is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.6 Property, Plant and Equipment (continued)

Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of income as incurred.

Costs other than those referred to above are recognised as an expense when incurred.

3.7 Intangible Assets

Intangible assets (primarily software) are measured at cost. Intangible assets are recognised if it is probable that the future economic benefits attributable to the asset will flow to the enterprise. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives 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 is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

3.8 Income Tax

Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).

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.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.8 Income Tax (continued)

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.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Tax effects related to the revaluation of tax base of assets and liabilities are credited or charged to equity in case such revaluation for tax purposes is related to an accounting revaluation. Otherwise, tax effects are recognised in the statement of income.

Deferred tax assets and liabilities are not discounted.

3.9 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 fulfillment 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 Company 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. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of income.

Capitalised leased assets 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 Company will obtain ownership by the end of the lease term.

Operating lease payments are recognized as an expense in the statement of income on a straight line basis over the lease term.

3.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where 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.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.11 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements. Where an inflow of economic benefits is probable, they are disclosed.

3.12 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 financial statements.

3.13 Equity

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 fair value of consideration received over the par value of shares issued is recognised as other reserves (refer to Note 2).

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.14 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventory are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

The Company acts as a legal intermediary between clients and RZD. In the capacity of an agent it pays fees and certain other costs on behalf of its clients. The reimbursements of such costs by the Company's clients are not included in sales.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.14 Revenue Recognition (continued)

The Company categorizes revenues as follows:

Agency fees

Commission fees collected from RZD for intermediary activities are recognised as revenues in the accounting period in which the services are rendered.

Container shipping services

The Company acts as an operator in organising container shipping services for clients using its own or leased cargo cars. Revenues from these services are recognised upon completion in the accounting period in which the services are rendered

Lease revenues

Revenues from operating lease of rolling stock are recognized on a straight line basis over the term of operating rent agreements.

3.15 Employee Benefits

Defined benefit plans

The Company operates two 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 statement of income, 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 recognised as income or expense in full as they arise.

In addition, the Company provides certain other retirement and post retirement benefits to its employees. These benefits are unfunded.

Upon introduction of a new plan or improvement of an existing plan past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested immediately, past service cost is immediately expensed.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.15 Employee Benefits (continued)

Defined contribution plans

In addition to the defined benefit plans described above, the Company also sponsors a defined contribution plan for certain of its employees. The plan covers active employees and provides for contributions ranging from 0.6% to 10.7% of salary. The Company's contributions relating to the defined contribution plan are charged to the statement of income in the year to which they relate.

State Plan

In addition, the Company is legally obligated to make contributions to the Russian Pension Fund, managed by the Russian Federation Social Security (a multi-employer defined contribution plan). The Company's only obligation is to pay the contributions as they fall due. As such, the Company has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Company's contributions to the Russian Pension Fund relating to defined contribution plans are charged to the statement of income in the year to which they relate.

Contribution to the Russian Pension Fund 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 Russian Pension Fund), where the rate of contributions to the Russian Pension Fund varies from 20% to 2%, respectively, depending on the annual gross salary of each employee.

3.16 Borrowing Costs

Borrowing costs are expensed as incurred.

3.17 Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the statement of income. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of foreign entities with the functional currency other than the Russian Roubles included in the consolidated financial statements, are translated into the Russian Roubles at the rate of exchange ruling at the balance sheet date, and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity with the functional currency other than the Russian Rouble, the deferred cumulative amount recognised in equity relating to that entity is recognised in the statement of income.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.18 Use of Management Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and costs during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest available, reliable information. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The most significant estimates relate to the realisability and depreciable lives of property, plant and equipment, the realisability of long-term financial investments, allowance for doubtful accounts, provision for obsolete inventory, provision for tax contingencies and deferred taxation. Actual results could differ from these estimates.

3.19 Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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:

Useful Life 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.

No changes in change in estimates of useful lives of property, plant and equipment took place in the year ended 31 December 2006.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to the assets.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.19 Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment (continued)

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large 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. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

Allowance for Doubtful Accounts

Management maintains an allowance for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the aging of accounts receivable balances and historical write-off experience, customer credit worthiness 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 2006, allowance for doubtful accounts was recognised in the amount of Rbls 19,164 (refer to Note 5).

Pension Obligations

The Company uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This 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 benefit 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 affected materially. More details are provided in Note 9.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

3. Summary of Significant Accounting Policies (continued)

3.19 Estimation Uncertainty (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As of 31 December 2006 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Note 18.

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognized in the statement of income.

3.20 Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised 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 percent of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amount to at least 90 percent of the fair value of the leased asset, the lease is classified by the Company as a finance lease, unless it is clearly demonstrated otherwise.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

4. Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation comprised the following:

	Land, buildings and constructions	Containers and flatcars	Vehicles and other property, plant and equipment	Construction in progress and equipment for installation	Total
Cost					
Balance at 4 March 2006 (inception)	-	-	-	-	-
Additions	73,474	605,150	36,655	303,081	1,018,360
Addition through contribution in kind (Note 18)	1,558,939	9,862,752	238,258	2,884	11,662,833
Disposals	-	(631)	-	-	(631)
Balance at 31 December 2006	1,632,413	10,467,271	274,913	305,965	12,680,562
Accumulated depreciation and impairment					
Balance at 4 March 2006	-	-	-	-	-
Depreciation charge	(146,092)	(553,704)	(33,633)	-	(733,429)
Impairment	-	-	(3,708)	-	(3,708)
Disposals	-	36	-	-	36
Balance at 31 December 2006	(146,092)	(553,668)	(37,341)	-	(737,101)
Net book value at 31 December 2006	1,486,321	9,913,603	237,572	305,965	11,943,461

Included in land, buildings and constructions is the amount of Rbls 16,469, which represents the value of land plots owned by the Company.

During 2006 the Company concluded that property, plant and equipment with the carrying value of Rbls 3,708 was impaired. A 100% provision for impairment was recognised by the Company with regard to such assets as of 31 December 2006. The corresponding expense was included in other expenses.

Leased assets as of 31 December 2006, included above where the Company is a lessee under a finance lease, comprised the following:

	2006
Cost - capitalized finance leases	605,150
Accumulated depreciation	(10,629)
Net book value	594,521

Leased assets above were obtained from entities considered related to the Company (Note 17). Refer to Note 8 for further details regarding finance leases.

5. Trade and Other Receivables

Trade and other receivables as of 31 December 2006 comprised the following:

	2006
Trade receivables, net	925,012
Other receivables	2,188
Total trade and other receivables	927,200

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

5. Trade and Other Receivables (continued)

Trade receivables as of 31 December 2006 comprised the following:

	<u>2006</u>
Trade receivables	944,176
Less: provision for impairment of receivables	<u>(19,164)</u>
Total trade receivables, net	<u>925,012</u>

Included in trade receivables as of 31 December 2006 are Rbls 749,410, which represent receivables from RZD, the Company's principal shareholder. A provision for impairment of Rbls 19,164 was recognised by the Company with regard to these receivables as of 31 December 2006.

6. Prepayments and Other Current Assets

Prepayments and other current assets as of 31 December 2006 comprised the following:

	<u>2006</u>
VAT receivable	484,131
Advances to suppliers	377,216
Other current assets	<u>3,514</u>
Total prepayments and other current assets	<u>864,861</u>

Included in advances to suppliers above is the amount of prepayments made to RZD of Rbls 286,030. This amount comprises primarily payments made by the Company on behalf of its customers for transportation services to be rendered by RZD.

7. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December 2006 comprised the following:

	<u>2006</u>
Russian rouble denominated cash in hand and balances with banks	390,594
Foreign currency denominated balances with banks	191,386
Russian rouble denominated short-term bank deposits	<u>650,000</u>
Total cash and cash equivalents	<u>1,231,980</u>

Foreign currency denominated balances with banks as of 31 December 2006 comprised US dollar denominated balances in the amount of US\$ 7,167 thousand (Rbls 188,723 at the exchange rate as of 31 December 2006) held by the Company, and Euro denominated balances in the amount of EUR 75 thousand (Rbls 2,663 at the exchange rate as of 31 December 2006) held by a joint venture - Oy TransContainer Scandinavia Ltd (refer to Note 2).

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. The deposits attract interest at a rate of 5% per annum. All deposits are placed with JSC TransCreditBank, a related party (refer to Note 17).

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

8. Finance Leases

The Company has finance leases for containers and flatcars. The lease agreements are for the period of 5 years with the effective interest rate varying from 15.85% to 16.91% per annum. All lease agreements are signed with an entity, which is considered related to the related parties disclosed in Note 17. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2006	
	Minimum payments	Present value of payments
Within one year	150,454	135,803
After one year but not more than five years	696,682	407,939
Total minimum lease payments	847,136	543,742
Less: amounts representing interest	(303,394)	-
Present value of minimum lease payments	543,742	543,742

9. Employee Benefit Liabilities

The Company provides defined benefit and defined contribution pension plans covering substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund "Blagosostoyanie". Pension entitlements are accrued using the projected unit credit method.

In order to be entitled to pension through the non-state pension fund "Blagosostoyanie" a person should meet the following criteria:

- 1) active participants in defined benefit plan^(A) born before 1967 – 15 years of past service with RZD and its subsidiaries and railway industry enterprises or 10 years of participation in the defined benefit plan;
- 2) active participants in defined benefit plan^(A) born in 1967 and later – 10 years of participation in the defined benefit plan;
- 3) all other employees who are not active participants in the defined benefit plan^(A) referred to above or in defined contribution plans – 15 – 20 years (15 years for women, 20 years for men) of continuing service before retirement;
- 4) employees (including active participants in defined benefit plan^(A)) should retire from the Company.

(A) An active participant in defined benefit plan is a person making contributions to the pension plan at his/her own expense. Such contributions are matched by the Company.

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" referred to above 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 unfunded.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

9. Employee Benefit Liabilities (continued)

In addition, the Company provides other retirement and post employment benefits to its employees, which comprise a once per year compensation of transportation costs on long-distance trains and one-time bonus on retirement ranging from 1 to 6 monthly salaries and depending on the duration of the service period and some other requirements. These benefits are unfunded.

Similarly to the pension plans above, entitlements to such additional benefits are accrued using the projected unit credit method.

There were approximately 4,600 employees eligible for some part of the post employment and post retirement benefit program of the Company as of 31 December 2006, of which 914 employees were considered active participants in the defined benefit pension. In addition, there are 127 retired employees eligible for the post retirement benefit program of the Company provided through not-for-profit fund "Pochet" as of 31 December 2006.

The amounts recognised in the consolidated balance sheet as of 31 December 2006 are as follows:

	Blago-sostoyanie	Pochet	Other post-employment benefits	Total
Present value of defined benefit obligations	186,388	3,242	108,019	297,649
Fair value of plan assets	(8,081)	–	–	(8,081)
Present value of unfunded defined benefit obligations	178,307	3,242	108,019	289,568
Unrecognised past service cost	(47,174)	–	(5,016)	(52,190)
Net pension liability in the balance sheet	131,133	3,242	103,003	237,378

The amounts recognised in the consolidated statement of income, which are included in "Payroll and related charges", are as follows:

	Blago-sostoyanie	Pochet	Other post-employment benefits	Total
Current service cost	3,765	–	2,372	6,137
Interest on benefit obligations	6,239	126	3,608	9,973
Expected return on plan assets	(408)	–	–	(408)
Amortization of past service cost	7,681	–	437	8,118
Net expense for the year	17,277	126	6,417	23,820

Actual return on plan assets: 408

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

9. Employee Benefit Liabilities (continued)

Movements in the net liability recognised in the consolidated balance sheet are as follows:

	<u>2006</u>
Net liability at the 4 March (inception)	–
Net liability assumed through business combination	217,520
Net expense recognised in the statement of income	23,820
Contributions	(3,962)
Net liability at 31 December	<u>237,378</u>

Movements in the net assets of defined benefit pension plans during 2006 were as follows:

	<u>2006</u>
Fair value of plan assets at 4 March (inception)	–
Fair value of plan assets acquired in a business combination	4,087
Actual return on plan assets	408
Employer contributions	3,962
Benefits paid	(376)
Fair value of plan assets at 31 December	<u>8,081</u>

The Company expects to contribute approximately Rbls 20 million to its defined benefit pension plans in 2007.

The major categories of plan assets administered by non-state pension fund "Blagosostoyanie" as a percentage of the fair value of total plan assets were as follows as of 31 December 2006:

	<u>2006 (%)</u>
Bank deposits	22%
Corporate bonds of Russian legal entities	37%
Promissory notes of Russian legal entities	30%
Moscow City Government bonds	8%
Other	3%

As of 31 December 2006 actuarial assumptions used were as follows:

	<u>Blago- sostoyanie</u>	<u>Pochet</u>	<u>Other post- employment benefits</u>
Discount rate	7.5%	7.5%	7.5%
Rate used for calculation of annuity value	4%	4%	4%
Average remaining working life	19 years	19 years	19 years
Expected return on plan assets	8.52%	8.52%	8.52%
Mortality tables	year 1994	year 1994	year 1994

The Company further assumed that salary will increase in future in line with inflation rate. The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which obligations are to be settled, and the structure of the plan assets portfolio.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

10. Trade and Other Payables

Trade and other payables as of 31 December 2006 comprised the following:

	<u>2006</u>
Trade payables	225,455
Liabilities to customers	1,525,135
Total trade and other payables	<u><u>1,750,590</u></u>

11. Taxes Other than Income Tax Payable

Taxes other than income tax payable as of 31 December 2006 comprised the following:

	<u>2006</u>
Property tax	94,829
Unified social tax	42,036
Personal income tax	8,456
Other taxes	135
Total taxes other than income tax	<u><u>145,456</u></u>

12. Accrued and Other Current Liabilities

Accrued and other current liabilities as of 31 December 2006 comprised the following:

	<u>2006</u>
Settlements with employees	139,269
Provision for tax liabilities (Note 18)	94,835
Other liabilities	48,892
Total accrued and other liabilities	<u><u>282,996</u></u>

13. Equity

Share Capital

The total authorised and issued capital as of 31 December 2006 comprises:

	<u>Number of outstanding ordinary shares</u>	<u>Value</u>
Issue of shares	13,894,778	13,894,778
At 31 December 2006	<u><u>13,894,778</u></u>	<u><u>13,894,778</u></u>

The Company's shares were paid through contribution by its parent, RZD of net assets related to container transportation activities. Such net assets comprise primarily cash, property, plant and equipment, long-term employee benefit liabilities and the related deferred tax assets and 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 Company the right to claim VAT related to such property, plant and equipment for reimbursement from the tax authorities. The amount of such VAT equated to Rbls 104,001. This amount was included in the determination of the total value of the consideration paid by RZD for the Company's shares.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

13. Equity (continued)

Share Capital (continued)

The difference between the fair value of net assets contributed (refer to Note 2) and the nominal value of the shares issued by the Company of Rbls 2,254,346, was recorded as other reserves.

As of 31 December 2006 all shares have been issued. The amount receivable from the shareholders for the shares issued equated to Rbls 2,141,996 as of 31 December 2006. The share capital was fully paid subsequent to 31 December 2006 (refer to Note 20).

The Company shareholder structure as of 31 December 2006 was as follows:

	Number of outstanding ordinary shares	Percentage of ownership
RZD	13,894,777	99.99999%
Non-commercial organisation "Zheldorreforma"	1	0.00001%
	13,894,778	13,894,778

Subsequent to 31 December 2006, non-commercial organisation "Zheldorreforma", sold its one ordinary share in TransContainer to open joint stock company "Baminvest", a subsidiary of RZD.

Dividends

Dividends of Rbls 144,228 were declared in 2007 in respect of 2006 (refer to Note 20).

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 Russian statutory financial statements. TransContainer had approximately Rbls 1,441,971 (**Unaudited**) of undistributed and unreserved earnings as at 31 December 2006.

14. Revenues

Revenues for the period from 4 March (inception) to 31 December 2006 comprised the following:

	For the period from 4 March 2006 through 31 December 2006
Container shipping services	4,772,938
Agency fees	712,093
Operating lease of rolling stock	256,763
Other	32,352
Total revenues	5,774,146

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

15. Other Expenses

Other expenses for the period from 4 March (inception) to 31 December 2006 comprised the following:

	For the period from 4 March 2006 through 31 December 2006
Security	63,349
Consulting services	48,274
Fuel costs	22,097
Advertising costs	16,896
Communication	15,401
Storage	14,553
Energy costs	12,956
Other, net	123,570
Total operating expenses	317,096

Other expenses comprise a variety of general and administrative costs.

16. Income Tax

Income taxes for the period from 4 March (inception) to 31 December 2006 comprised the following:

	For the period from 4 March 2006 through 31 December 2006
Income tax expense – current	633,461
Deferred tax credit – origination and reversal of temporary differences	(191,353)
Income tax expense	442,108

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

	For the period from 4 March 2006 through 31 December 2006
Income before taxation	1,683,567
Theoretical tax charge at statutory rate of 24%	404,056
Non-deductible expenses	15,292
Provision for tax risks	22,760
Income tax expense	442,108

OJSC “TransContainer”

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

16. Income Tax (continued)

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated balance sheets, which relate primarily to valuation of property, plant and equipment for tax purposes, give rise to the following deferred tax effects:

	4 March 2006 (inception)	Effect of business combination	Recognition and reversal of temporary differences	31 December 2006
Tax effects of deductible temporary differences:				
Trade and other receivables	–	–	(12,554)	(12,554)
Finance lease obligations	–	–	(130,698)	(130,698)
Trade and other payables	–	–	(68,332)	(68,332)
Employee benefits liabilities	–	(28,186)	(3,286)	(31,472)
	–	(28,186)	(214,870)	(243,056)
Tax effects of taxable temporary differences:				
Property, plant and equipment	–	2,057,927	21,425	2,079,352
Intangible assets	–	–	2,092	2,092
Net tax effect of temporary differences	–	2,057,927	23,517	2,081,444
Total net deferred tax liability	–	2,029,741	(191,353)	1,838,388

17. Balances and Transactions with Related Parties

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.

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 Company entered into significant transactions or had significant balances outstanding at 31 December 2006 are disclosed below:

Related party	Nature of relationship
OJSC “Russian Railroads” (RZD)	Parent company
JSC “TransCreditBank”	An entity related to OJSC “Russian Railroads” through participation of the latter in the Board of Directors
OOO “FinanceBusinessGroup” (Note 8)	An entity related to JSC “TransCreditBank”
OOO “Refservice”	Fellow subsidiary of RZD
Blagosostoyanie	Post-employment benefit plan for the benefit of employees of the Company
Pochet	Post-employment benefit plan for the benefit of employees of the Company

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

17. Balances and Transactions with Related Parties (continued)

The following table provides the total amount of transactions, which have been entered into with related parties during the period from 4 March (inception) through 31 December 2006:

Related party	Type of transaction	Amount	% in total similar transactions
Revenues from rendering of services			
RZD	Agency fees	712,093	100%
RZD	Operating lease of rolling stock	175,392	68%
RZD	Other services	22,718	70%
Other	Other services	7,415	23%
Purchases			
RZD	Transportation services	754,736	68%
RZD	Repair services	509,918	86%
RZD	Rent of property and equipment (A)	139,760	88%
Other	Repair services	3,891	
Other income			
TransCreditBank	Interest income on deposits	2,395	
Other transactions			
Pochet	Pension contributions	228	
Blagosostoyanie	Pension contributions	3,586	

(A) In 2007 substantially all equipment rented from RZD during 2006 was purchased by the Company.

As of 31 December 2006 the Company has the following significant balances with related parties:

	<u>2006</u>
Trade and other receivables	
RZD, net of provision for impairment (Note 5)	730,246
Other	2,188
	<u>732,434</u>
Receivable from shareholder for shares issued	
RZD	2,141,996
Prepayments and other current assets	
Advances to RZD (Note 6)	286,030
Trade and other payables	
RZD	131,868
Refservice	4,310
Other	3,639
Accrued and other liabilities	
RZD	8,371

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

17. Balances and Transactions with Related Parties (continued)

During the period from 4 March (inception) to 31 December 2006 the Company maintained several bank accounts in state-controlled credit institutions. The amount of cash and deposits held in these institutions as of 31 December 2006 equated to Rbls 1,725,619, which comprised the following:

	<u>2006</u>
Cash	575,619
Cash equivalents (Note 7)	650,000
Total cash and cash equivalents	<u>1,225,619</u>
Short-term deposits	500,000
Total	<u>1,725,619</u>

Russian rouble denominated short-term deposits are placed with JSC TransCreditBank and attract interest of 7.25% per annum.

Relationships with Open Joint Stock Company "Russian Railroads"

The Company performs a variety of transactions with RZD ("the Parent"), which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Further, RZD owns the vast majority of rail-cars repair facilities in Russia, which are used by the Company 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 Company, RZD engaged TransContainer to act as its agent in performance of these functions. Revenues generated by the Company during the period from 4 March (inception) to 31 December 2006 from such transactions with RZD are reported as Agency Fees in the accompanying statement of income.

Compensation to Key Management Personnel

Key management personnel comprise members of the Board of Directors of the Company, the General Director and his deputies, totalling 10 persons as at 31 December 2006. Total compensation to key management personnel included in payroll and related charges in the statement of income amounted to Rbls 16,808 for the period from 4 March (inception) to 31 December 2006. Such compensation comprises primarily short-term benefits. Post-employment and other long-term benefits of key management personnel were immaterial.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

18. Contingencies, Commitments and Operating Risks

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

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

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated balance sheet as of 31 December 2006. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities (refer also to Note 12). However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect could be significant.

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.

Contractual Commitments

In December 2006 the Company signed a long-term contract with Tekhwagonmash regarding reconstruction of Gryazinsky Container Manufacturing Plant for the total amount of Rbls 26,472. Reconstruction works are expected to be completed in 2007.

Insurance Policies

The Company 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 covering export shipments. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

18. Contingencies, Commitments and Operating Risks (continued)

Legal Proceedings

During the year, the Company 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 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 consolidated financial statements.

19. Financial Risk Management

The Group's principal financial instruments comprise short-term bank deposits and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. During the year the Group did not undertake trading in financial instruments.

Credit Risk

Credit risk is the risk that a counter party will fail to discharge an obligation and cause the Company to incur a financial loss.

Financial assets, which potentially subject the Company entitles to credit risk, consist principally of trade receivables. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provision already recorded.

The Company constantly monitors the status of accounts receivable collection and the credit worthiness of the customers. In addition, the Group requires prepayments from certain Customers.

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

Foreign Exchange Risk

A part of Company's receivable and payable balances, related primarily to settlements with customers, is denominated in currencies other than the Russian Rouble. This exposes the Company to foreign exchange risk. Foreign currency denominated deposits (see Note 7) also give rise to foreign exchange risk exposure.

The Company does not have formal arrangements to mitigate foreign exchange risks of the Company's operations.

OJSC "TransContainer"

Notes to the Consolidated Financial Statements (continued)

(in thousands of Russian Roubles)

19. Financial Risk Management (continued)

Interest Rate Risk

As of 31 December 2006 the Company has no short-term and long-term borrowings. The Company has significant interest-bearing assets as disclosed in Notes 7 and 17.

Fair values of financial instruments

Fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction (except for forced sale or liquidation). Market prices are considered to be the best evidence of fair value.

Management believes that the carrying values of financial assets and liabilities approximate their fair values due to their short maturity.

In case management becomes aware that carrying value materially exceeds the fair value of certain financial assets, specific valuation allowances will be recorded to provide for the specific assets.

20. Post Balance Sheet Events

Contribution to share capital

Subsequent to 31 December 2006, the amount of Rbls 2,141,996 receivable from shareholder in connection with payment for the shares issued by the Company was collected in full.

Dividends

On 20 June 2007 the annual shareholders meeting approved annual dividends for the year ended 31 December 2006 in the amount of Rbls 144,228.

Borrowings

On 20 July 2007 the Board of Directors approved the issue of non-convertible Russian Rouble denominated bonds (at par value of 1,000 rouble each) totalling Rbls 3 billion. The bonds mature in 5 years from the date of issue.

Joint ventures

Subsequent to 31 December 2006, the Board of Directors approved establishment of a joint venture with Deutsche Bahn. The new company Trans-Eurasia Logistics GmbH is established for further development of containerized shipments and handling services between Russia and foreign countries (Europe, China and CIS).