

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to what action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised for the purposes of the Financial Services and Markets Act 2000 (as amended) who specialises in advising on the acquisition of shares and other securities.**

This document is an admission document drawn up in accordance with the AIM Rules and does not constitute a prospectus under the Prospectus Rules published by the FSA and a copy of it has not been and will not be approved by or filed with the FSA.

If you have sold or transferred all your Ordinary Shares in Teleset Networks Public Company Limited, you should send this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Company and the Directors and Proposed Director, whose names appear on page 4 of this document, accept individual and collective responsibility for the information contained in this document including responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and Proposed Director and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

**Application will be made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will be effective and dealings will commence in the Ordinary Shares on 12 October 2006. The Ordinary Shares are not dealt in on any other recognised investment exchange and no such applications have been made. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Neither the London Stock Exchange nor the UKLA has examined or approved the contents of this document. The AIM Rules are less demanding than those which apply to securities admitted to trading on the Official List.**

**A prospective investor should read the whole text of this document and should be aware of the potential risks of investing.**

**YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART III OF THIS DOCUMENT.**

---

## **Teleset Networks Public Company Limited**

*(incorporated in Cyprus with registered number 178378)*

### **Admission to Trading on AIM**

**Corporate Synergy Plc**  
*Nominated Adviser*

**Metropol (UK) Limited**  
*Broker*

---

Corporate Synergy Plc and Metropol (UK) Limited, each of which are authorised and regulated in the United Kingdom by the FSA, are acting as nominated adviser and broker respectively to the Company in connection with Admission. Their responsibilities as the Company's nominated adviser and broker respectively under the AIM Rules are owed solely to London Stock Exchange and are not owed to the Company or to any director or proposed director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. Neither Corporate Synergy Plc nor Metropol (UK) Limited have authorised the contents of this document for any purpose and without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by Corporate Synergy Plc or Metropol (UK) Limited as to any of the contents or completeness of this document. In particular, the information contained in this document has been prepared solely for Admission and is not intended to inform or be relied upon by any subsequent purchaser of Ordinary Shares (either on or off exchange) and accordingly no duty of care is accepted in relation to them. Neither Corporate Synergy Plc nor Metropol (UK) Limited are, or will be, offering advice, and neither Corporate Synergy Plc nor Metropol (UK) Limited are, or will be, otherwise responsible to anyone other than the Company either for providing the protections afforded to customers of Corporate Synergy Plc and Metropol (UK) Limited respectively, or for providing advice in relation to the contents of this document or any other matter.

The Ordinary Shares have not been, and will not be, registered under the United States Securities Act 1933 (as amended), or under the securities legislation of any State of the United States of America, Australia, Canada, Japan, the Republic of South Africa or the Republic of Ireland. Accordingly, subject to certain exceptions, the Ordinary Shares may not, directly or indirectly, be offered or sold within the United States of America, Australia, Canada, Japan, the Republic of South Africa or the Republic of Ireland or to or for the account of any national, resident or citizen of Australia, Canada, Japan, the Republic of South Africa or the Republic of Ireland or any person located in the United States of America. This document does not constitute an offer, or the solicitation of an offer to subscribe or buy any of the Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

**Copies of this document may be obtained free of charge for a period of one month from the date of this document from the offices of Metropol (UK) Limited at Princes House, 38 Jermyn Street, London SW1Y 6DN.**

## CONTENTS

	<b>Page</b>
Admission statistics	3
Expected timetable of principal events	3
Directors and Proposed Director, Secretary and Advisers	4
Definitions	6
Glossary	8
PART I Key information	9
PART II Information on the Group	11
PART III Risk factors	19
PART IV Financial Information Accountants' report on Teleset Networks Public Company Limited	28
PART V Financial Information	
(a) Accountants' report on the Subsidiaries	32
(b) Unaudited interim financial information on the Subsidiaries for the six months ended 30 June 2006	48
PART VI Additional information	54

## ADMISSION STATISTICS

Introduction Price	18p
Number of Ordinary Shares in issue on Admission	102,386,610
Market capitalisation at the Introduction Price on Admission	£18.4m
AIM symbol	TNW
ISIN number	CY1010051815

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	<b>2006</b>
Date of publication of this admission document	6 October
Admission and dealings in Ordinary Shares to commence on AIM	12 October
CREST accounts credited with Depositary Interests in respect of Market Maker Shares (where applicable)	12 October
Despatch of definitive share certificates in respect of Market Maker Shares (where applicable) by	19 October

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors:</b>	Philippos Vatiotiis ( <i>Non-Executive Chairman</i> ) Yiannis Demetriou ( <i>Chief Executive Officer</i> ) Roman Shaikhutdinov ( <i>Chief Operating Officer</i> ) Lidana Bondar ( <i>Chief Financial Officer</i> ) Ioannis Tirkides ( <i>Non-Executive Director</i> )
<b>Proposed Director:</b>	Frank Lewis ( <i>Non-Executive Director</i> ) ( <i>with effect from Admission</i> )
<b>Registered Office:</b>	89 Lemesou 2121 Aglantzia Nicosia Cyprus
<b>Company Secretary:</b>	<b>AAA Regent Consultants Ltd</b> P.O.Box 22654 1523 Nicosia Cyprus
<b>Nominated Adviser:</b>	<b>Corporate Synergy Plc</b> 30 Old Broad Street London EC2N 1HT
<b>Broker:</b>	<b>Metropol (UK) Limited</b> Princes House 38 Jermyn Street London SW1Y 6DN
<b>Reporting Accountants:</b>	<b>UHY Hacker Young</b> St Alphage House 2 Fore Street London EC2Y 5DH
<b>Auditors:</b>	<b>Grant Thornton LLP</b> 41-49 Agiou Nicolaou Street Nimeli Court, Block C, Egkomi P.O Box 23907 1687 Nicosia Cyprus
<b>Solicitors to the Company:</b> <b>(as to English Law)</b>	<b>Halliwells LLP</b> 1 Threadneedle Street London EC2R 8AW
<b>(as to Russian Law):</b>	<b>ALRUD</b> 6th Floor 17 Skakovaya Street 125040 Moscow Russian Federation
<b>(as to Cypriot Law):</b>	<b>Papadopoulos, Lycourgos &amp; Co</b> 18 Lord Byron Avenue 1096, Nicosia Cyprus
<b>Solicitors to the Admission:</b>	<b>Cobbetts LLP</b> One Colmore Square Birmingham B4 6AJ

**Financial PR Advisers:** **Bankside Consultants Limited**  
1 Fredrick's Place  
London EC2R 8AE

**Registrar in Cyprus:** **CLR Securities and Financial Services Limited**  
CLR House  
26 Byron Avenue, 1096  
PO Box 24616, 1301  
Nicosia  
Cyprus

**DI Depository:** **Computershare Investor Services Plc**  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

**Company Website:** [www.telesetnetworks.com](http://www.telesetnetworks.com)

## DEFINITIONS

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the Enlarged Share Capital to trading on AIM and such admission becoming effective in accordance with Rule 6 of the AIM Rules
“AIM”	the market of that name operated by London Stock Exchange
“AIM Rules”	the rules governing the admission to and operation of AIM published by the London Stock Exchange from time to time
“City Code”	the City Code on Takeovers and Mergers
“Company”	Teleset Networks Public Company Limited
“Computershare”	Computershare Investor Services Plc
“Corporate Synergy”	Corporate Synergy Plc, nominated adviser to the Company
“CREST”	the computer based system and procedures which enable title to securities to be evidenced and transferred without a written instrument and which is operated by CRESTCo
“CRESTCo”	CRESTCo Limited, a company incorporated under the laws of England and Wales and the operator of CREST
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“CYP”	Cyprus Pounds, the lawful currency of the Republic of Cyprus
“Cyprus Company Law”	Cyprus Company Law, as amended
“DIs” or “Depository Interests”	dematerialised depository interests representing underlying Ordinary Shares
“Directors”, “Proposed Director” or “Board”	the directors and proposed director of the Company, being at the date of this document the persons whose names are set out on page 4 of this document
“Enlarged Share Capital”	the existing Ordinary Shares and the Market Maker Shares
“FSA”	the UK Financial Services Authority
“Group”	Teleset Networks Public Company Limited and the Subsidiaries
“IFRS”	International Financial Reporting Standards
“Introduction Price”	18p per Ordinary Share
“Introduction Agreement”	the conditional agreement dated 6 October 2006 and made between (i) the Company, (ii) Corporate Synergy, (iii) Metropol and (iv) the Directors and Proposed Director relating to Admission, further details of which are set out in paragraph 10.3 of Part VI of this document
“LIBOR”	London Interbank Offer Rate
“Lock-in Agreement”	the conditional agreement dated 6 October 2006 and made between (i) Metropol, (ii) Corporate Synergy, (iii) the Company, (iv) Manglis (Holdings) Limited, (v) F. & S. Telecom Limited, (vi) Celltech Limited and (vii) TeleDev East, further details of which are set out in paragraph 10.2 of Part VI of this document
“Lock-in Persons”	Manglis (Holdings) Limited, F. & S. Telecom Limited, Celltech Limited and TeleDev East
“London Stock Exchange”	London Stock Exchange Plc
“Market Maker Shares”	the 195,600 Ordinary Shares to be issued by the Company to certain market makers on Admission, further details of which are set out in paragraph 3.3 of Part VI of this document
“Metropol”	Metropol (UK) Limited, broker to the Company

“Official List”	the Official List of the UKLA
“Ordinary Shares”	ordinary shares in the capital of the Company
“Panel”	the Panel on Takeovers and Mergers
“RAP”	Russian Accounting Policies
“RUR”	Russian Roubles, the lawful currency of the Russian Federation
“Shareholders”	holders of the Ordinary Shares
“Share Option Plan”	the employee share scheme of the Company, details of which are contained in paragraph 4 of Part VI of this document
“Subsidiaries”	Teleset and Teleset Invest
“TeleDev East”	TeleDev East Limited, a company incorporated in the Republic of Cyprus
“Teleset” or “Teleset LLC”	Limited Liability Company “Teleset”, a company incorporated in the Russian Federation
“Teleset Invest”	Limited Liability Company “Teleset Invest”, a company incorporated in the Russian Federation
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UKLA”	FSA, acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
“US”	the United States of America
“\$”	US Dollars, the lawful currency of the United States of America
“£” and “p”	British Pounds and pence sterling, the lawful currency of the UK

## GLOSSARY

ARPU	average revenue per user
DLD	domestic long-distance
DSL	digital subscriber line
E1	the European format for digital transmission
ERP	enterprise resource planning
GDP	gross domestic product
ILD	international long-distance
IP	internet protocol
ISDN	integrated services digital network
ISP	internet service provider
Local loop	the final leg of delivering communication connectivity to the customer
POP	point of presence
RTE	remote telephone exchange
VoIP	voice over internet protocol
VPN	virtual private network
WTO	world trade organisation
xDSL	generic term for a variety of DSL techniques that allow wide and narrowband signals to be sent down normal telephone wires

## **Part I**

### **KEY INFORMATION**

#### **INTRODUCTION**

The Group provides telecommunication services to residential and business customers through the operation of a local digital fixed-line network in Kazan, the capital of the Republic of Tatarstan in the Russian Federation. The local network has been built through the investment by TeleDev East and its Subsidiaries since 1998. To date, approximately \$23 million has been invested to build the network.

#### **BACKGROUND AND HISTORY**

Teleset was incorporated on 26 September 1996 in the Republic of Tatarstan, part of the Russian Federation, by several Russian investors to build and operate a fixed-line telecom network in Kazan, Tatarstan's principal city. In April 1998, TeleDev East, a company incorporated in Cyprus to pursue telecom opportunities in Russia, became a 75 per cent participant/shareholder of Teleset. TeleDev East subsequently formed a new subsidiary, Teleset Invest, on 8 September 1998 in the Republic of Tatarstan to invest in telecom equipment for lease to Teleset. By 2001, TeleDev East had acquired the remaining 25 per cent of Teleset's issued share capital from the original participants/shareholders as a result of which Teleset became a wholly-owned subsidiary of TeleDev East.

Teleset Networks Public Company Limited was incorporated in Cyprus on 19 June 2006 as a holding company in anticipation of the proposed de-merger of the Subsidiaries from TeleDev East. The ownership of Teleset and Teleset Invest has now been transferred to the Company. The shareholders of TeleDev East Limited immediately prior to the de-merger has now become the shareholders of the Company.

#### **SERVICES AND PRODUCTS**

The basic services that Teleset offers to its customers in Kazan are the following:

- Traditional voice telephone services
  - Installation of access lines
  - Local calls
  - DLD and ILD calls
- Data transmission services
  - Dial-up internet access
  - Dedicated internet access (xDSL and fiber)
- Value-added business services
  - Installation of multi-line local access solutions
  - VPN solutions
  - Turn-key solutions, system integration
- VoIP telephony services
  - VoIP services to Teleset's customers and those of certain of its competitors
  - Calling cards for DLD and ILD calls
- Other specialised services
  - Leased line and infrastructure provision for other operators and for Teleset's customers
  - Network construction and facility leasing
  - Co-location and media traffic services
  - Network design

#### **MARKET OVERVIEW**

The Russian fixed-line telecom market has developed substantially in the last 10 to 15 years. The entire sector has required substantial investment from a position of historic underinvestment. The continued demand for fixed-line telecom services, including value-added services, is expected to be driven by the growth of the Russian economy as a whole.

## **COMPETITION**

Teleset faces competition from three companies that have large local fixed-line networks in Kazan. These are Kazan GTS (with an estimated 228,000 lines), Intelset (with an estimated 40,000 lines) and TNPKO (with an estimated 32,000 lines) (all figures as at 31 December 2005). The Company believes that Teleset is currently ranked second with approximately 72,000 active lines and 19 per cent of the fixed-line market share.

Teleset will seek to win additional fixed-line telecom subscribers on the back of the general economic growth expected to continue in Kazan as well as from the advantages offered by its digital network infrastructure, sales techniques, western-standard management and information systems.

## **STRATEGY**

The Group's strategy is to achieve stable growth in revenues and maintain strong cost controls. Its main objectives are:

1. to increase Teleset's network coverage within Kazan to reach additional potential customers (for example Teleset intends to launch new remote telephone exchanges in the Vakhitovsky, Privolzhsky and Societsky districts of Kazan, to which its current network does not extend);
2. to expand the range of services to Teleset's current and future customers in Kazan (for example Teleset plans to introduce cable TV services to its residential and corporate customers);
3. to establish POP's in other cities in Tatarstan by way of acquiring existing operators in those areas for integration into the existing Kazan network; and
4. to establish POP's in other regions of the Russia Federation through the acquisition of existing fixed line operators.

## **REASONS FOR ADMISSION**

The Directors and Proposed Director believe that Admission will raise the profile of the Group amongst customers and suppliers, provide it with the opportunity to raise additional funds and to finance future acquisitions through the issue of new equity and will give Shareholders the ability to trade Ordinary Shares in an orderly manner. It will also provide the Company with the opportunity to implement an attractive incentive programme for management and staff through the adoption of the Share Option Plan.

## PART II

### INFORMATION ON THE GROUP

#### INTRODUCTION

The Group provides telecommunication services to residential and business customers through the operation of a local digital fixed-line network in Kazan, the capital of the Republic of Tatarstan in the Russian Federation. The local network has been built through the investment by TeleDev East and its Subsidiaries since 1998. To date, approximately \$23 million has been invested to build the network.

Teleset has increased turnover and has been profitable in each of the past five financial years to 31 December 2005. This has been achieved through both sales growth and effective cost management.

With approximately 200 employees, the Group has an experienced management team and a stable workforce to support its future strategy.

The Directors and Proposed Director believe that Admission will raise the Group's profile towards customers and suppliers, provide it with the opportunity to raise additional funds for further development, finance future acquisitions through the issue of new equity and will give Shareholders the ability to trade Ordinary Shares in an orderly manner. It will also provide the Company with the opportunity to implement an attractive incentive programme for management and staff through the adoption of the Share Option Plan.

#### BACKGROUND AND HISTORY

Teleset was incorporated on 26 September 1996 in the Republic of Tatarstan, part of the Russian Federation, by several Russian investors to build and operate a fixed-line telecom network in Kazan, Tatarstan's principal city. In April 1998, TeleDev East, a company incorporated in Cyprus to pursue telecom opportunities in Russia, became a 75 per cent participant/shareholder of Teleset. TeleDev East subsequently formed a new subsidiary, Teleset Invest, on 8 September 1998 in the Republic of Tatarstan to invest in telecom equipment for lease to Teleset. By 2001, TeleDev East had acquired the remaining 25 per cent of Teleset's issued share capital from the original participants/shareholders as a result of which Teleset became a wholly-owned subsidiary of TeleDev East.

Teleset Networks Public Company Limited was incorporated in Cyprus on 19 June 2006 as a holding company in anticipation of the proposed de-merger of the Subsidiaries from TeleDev East. The ownership of Teleset and Teleset Invest has now been transferred to the Company. The shareholders of TeleDev East immediately prior to the de-merger have now become the shareholders of the Company.

TeleDev East's other subsidiaries in Russia include Limited Liability Company "Stelcom" (wholly owned), a long-distance wholesale telecom operator based in Moscow; Limited Liability Company "Formula +" (wholly owned), a VoIP/ISP operator in Novorossiysk; and Closed stock company "Items +" (wholly owned), an operator of internet cafes in Moscow.

*Map of the western part  
of the Russian Federation*



*Map of the Republic of Tatarstan*



## NETWORK DESCRIPTION

The Group's existing digital network infrastructure is equipped with ISDN and DSL capability. The network currently has a switching capacity of approximately 130,000 subscriber lines. The switching and transmission equipment installed in the network was procured through international tenders to the following companies: Ericsson, Alcatel, Nokia, Telrad Telecommunications and ECI. The contract was finally awarded to Telrad Telecommunications which manufactured this equipment under licence from Nortel.

The new network infrastructure was partially ready for operation towards the end of January 1999 when new subscribers started to be connected. The remaining part of the network infrastructure was gradually completed during 1999. The expansion of the network continues to date.

## SERVICES AND PRODUCTS

The basic services that Teleset offers to its customers in Kazan are the following:

- Traditional voice telephone services
  - Installation of access lines
  - Local calls
  - DLD and ILD calls
- Data transmission services
  - Dial-up internet access
  - Dedicated internet access (xDSL and fiber)
- Value-added business services
  - Installation of multi-line local access solutions
  - VPN solutions
  - Turn-key solutions, system integration
- VoIP telephony services
  - VoIP services to Teleset's customers and those of certain of its competitors
  - Calling cards for DLD and ILD calls
- Other specialised services
  - Leased line and infrastructure provision for other operators and for Teleset's customers
  - Network construction and facility leasing
  - Co-location and media traffic services
  - Network design

### *Traditional voice telephone services*

These services are provided through Teleset's local network in Kazan. As at 31 December 2005, Teleset had approximately 72,000 active lines with an installed capacity of 79,000 lines and a total network switching capacity of up to 130,000 lines.

Teleset's subscribers are predominantly residential and as at 31 December 2005 there were approximately 68,000 residential lines. Teleset levies a connection fee, monthly line rental fee and a timed usage fee.

Population density in Kazan is high and the cost of connecting a new subscriber is low compared to lower density areas.

There is currently a strong trend for existing customers to switch towards paying a fixed monthly line rental fee thereby allowing the user an unlimited number of local call minutes. As at 30 April 2006, 17.4 per cent of Teleset's residential customers took up the fixed fee service, an increase from 9.6 per cent as at 31 December 2005.

Teleset's business subscriber base is primarily made up of corporate entities and public sector institutions. The latter includes schools, hospitals, universities, and state and city administrative bodies. As at 31 December 2005, Teleset had 4,600 corporate customers who generated aggregate traffic of 33 million minutes in that financial year.

### *Data transmission services*

Teleset operates in both the dial-up and broadband internet access markets and the Company estimates it has a 19.4 per cent market share in Kazan. This has been the largest growth area for Teleset with aggregate revenues for dial-up and broadband internet access increasing from \$584,000 in 2003 to \$1,789,000 in 2005.

The dial-up service is currently the most popular route to access the internet in Kazan. It is offered in bundled marketing packages by Teleset to attract potential new customers. It is also offered to the existing subscribers of Kazan's other fixed-line operators by way of prepaid internet dial-up access cards available through third-party retail outlets.

The Group's xDSL internet access services has developed a strong upturn in customer numbers; as at 1 January 2006 Teleset had 686 xDSL subscribers, up from 222 at the start of the previous year.

#### *Value-added business services*

Teleset offers value added services and currently enjoys strong growth in this segment with revenues increasing from \$116,375 in 2003 to \$206,746 in 2005. These services include, *inter alia*:

- Calling line identification facility
- Outgoing calls via password
- DLD and ILD call access via password
- Call waiting
- Call forwarding
- Conference calling

#### *VoIP telephone services*

Teleset also offers VoIP telephony services which has grown strongly, increasing from \$159,000 in 2003 to \$541,000 in 2005. These revenues come from Teleset subscribers as well as from other operators' clients who access Teleset's VoIP services on a pre-paid basis.

### **MARKET OVERVIEW**

The Russian fixed-line telecom market has developed substantially in the last 10 to 15 years. The entire sector has required substantial investment from a position of historic underinvestment. The continued demand for fixed-line telecom services, including value-added services, is expected to be driven by the growth of the Russian economy as a whole, which is forecast to grow by 6 per cent per annum over the next 5 years. Further investment in fixed-line telecom networks is required to service both private and corporate customers to provide improved basic and value-added telecom services.

Russian GDP has grown by 6 per cent per annum between 1999 and 2005 and it is now the tenth largest economy in the world. However, expansion in fixed-line capacity has failed to match demand. It is estimated that by the end of 2006 there will only be 30 fixed telephone lines per 100 persons in Russia, which compares to over 75 in the USA and Western Europe (J'son & Partners quoted by MDM Bank, 2005).

The Russian fixed-line telecom market is broadly structured into three tiers:

- Local – facilitating communication within the boundaries of a single populated area;
- Zonal – telecommunication networks between local networks within a single region; and
- National and international – telecommunication networks that provide for national and international switching.

Local networks are found in towns and cities, including Kazan, which has a population of approximately 1.2 million and is ranked as one of the ten most populated cities in Russia. Kazan has developed a competitive fixed-line telecom market that is shared by Kazan GTS (part of Tattelcom, the zonal operator controlled by the government of the Republic of Tatarstan) and a number of private operators, including Teleset.

The zonal networks in Russia are typically operated by enlarged regional telecom operators, being subsidiaries of Svyazinvest, the government-controlled fixed-line telecom holding company. More recently, private alternative fixed-line telecom operators have entered the market, including NASDAQ listed Golden Telecom and London-quoted Comstar UTS.

In Tatarstan, the zonal operator Tattelcom is controlled by the government of the Republic of Tatarstan, and the long-distance market is dominated by the government-controlled Rostelecom (via Svyazinvest) which until recently had a monopoly on DLD and ILD calls made from and into Russia. It carries the majority of long-distance traffic due to its extensive network developed under the Soviet Union. The Directors and Proposed Director believe that the government may privatise Svyazinvest in 2007 or after the presidential elections in 2008.

## **REGULATORY ENVIRONMENT**

Details on how the relevant regulations concerning the acquisition, maintenance and renewal of communication licences by the Group are set out in further detail paragraph 11 of Part VI of this document.

## **INTERCONNECTION ARRANGEMENTS**

At present, any calls between Kazan's local fixed-line networks are carried by the local operators free of charge. However, local calls initiated from fixed lines and terminated to mobile lines are considered to be zonal calls as from 1 July 2006. As a result of this, tariffs for these zonal calls have been raised from 0,20 RUR per minute to 1,50 RUR per minute.

Teleset has an interconnection agreement with Tattelcom, whereby the latter carries Teleset's zonal, DLD and ILD traffic out of Kazan in return for an interconnection fee. Similarly, Teleset is entitled to receive interconnection revenue for every minute of traffic delivered by Tattelcom to Teleset's network; however, it is presently netted out from the interconnection fee paid. Teleset has a similar interconnection agreement with CJSC TransTeleKom NN whereby fees for the provision of such services are set off against each other.

Legislation has been introduced that allows local fixed-line operators to choose from a range of long-distance carriers and in the case of Teleset to obtain additional revenues from the "into Kazan" traffic by receiving a termination fee for the calls coming into its network. Teleset has also negotiated interconnection agreements with several such long-distance carriers. Teleset has also entered into contracts relating to the rent of communications channels with CJSC MetroTelkazan, MELT LLC and OJSC RTKomm-RU among others.

## **COMPETITION**

Teleset faces competition from three companies that have large local fixed-line networks in Kazan. These are Kazan GTS (with an estimated 228,000 lines), Intelset (with an estimated 40,000 lines) and TNPKO (with an estimated 32,000 lines) (all figures as at 31 December 2005). The Company believes that Teleset is currently ranked second with approximately 72,000 active lines and 19 per cent of the fixed-line market share.

Teleset will seek to win additional fixed-line telecom subscribers on the back of the general economic growth expected to continue in Kazan as well as from the advantages offered by its digital network infrastructure, sales techniques, western-standard management and information systems.

Mobile telephony is not considered by the Company currently to be a direct competitor of Teleset in all of its markets as it does not currently provide certain services at the same quality levels (e.g. broadband internet access) that a digital fixed line is capable of delivering. However, mobile telephony is capable of competing for voice traffic and can therefore reduce traffic revenues of fixed-line operators.

## **DIRECTORS**

### **Philippos Vatiliotis (age 70) (Non-Executive Chairman)**

Philippos has been involved in Teleset's business since 1996 as a general director of TeleDev East. He led the original acquisition of Teleset in 1998 and subsequent investments. Philippos has been involved in the telecom industry throughout his career which he started with Cable & Wireless in 1956 before moving to the Cyprus Telecommunications Authority where he spent 34 years before retiring as its general manager. He was President of the Cyprus Institute of Electrical Engineers and he is a member of the UK Institute of Electrical Engineers. He holds a BSc in electrical and electronic engineering from the University of Bath.

### **Yiannis Demetriou FCCA MBA (age 35) (Chief Executive Officer)**

Yiannis is a fellow member of the Association of Chartered Certified Accountants (FCCA) and a member of the Certified Public Accountants of Cyprus. He was Managing Director of TeleDev East from 2002 until the recent de-merger of the Subsidiaries from TeleDev East. He originally joined TeleDev East as the company's Finance Director in 1998. He was closely involved in acquiring the Subsidiaries and building up TeleDev East. He was formerly an internal auditor for the Ministry of Finance of the Republic of Cyprus. Yiannis holds an MBA from the University of Edinburgh. He is fluent in Greek, Russian and English.

### **Roman Shaikhutdinov (age 32) (Chief Operating Officer)**

Roman is actively involved in the operations of Teleset. He joined Teleset in 1998 to advise on legal issues relating to the local telecom market. He then worked for 2 years for Stelcom, a subsidiary of TeleDev East,

a long-distance wholesale telecom operator based in Moscow, in the capacity of legal adviser. Before joining Teleset, he worked as a legal adviser to the Ministry of Foreign Economic Relations and the Ministry of Finance of the Republic of Tatarstan. He graduated from the Kazan State University with a degree in law. He is fluent in Russian and English.

**Lidana Bondar (age 30) (Chief Financial Officer)**

Lidana joined Teleset in 1999 as chief accountant and has been responsible for the development of the finance function with regard to both financial and management accounting. She graduated from the Kazan State Finance & Economics Institute with a degree in financial management. She is fluent in Russian and English.

**Ioannis Tirkides (age 42) (Non-Executive Director)**

Ioannis is a Chartered Accountant. He is a managing director and secretary for the Manglis group of companies, a substantial shareholder of the Company, where he oversees several subsidiaries especially with regard to their finances and strategy. He was previously an audit manager with KPMG, Cyprus. He holds a BA in economics from American University of Beirut and an MA in business economics from the University of Essex. He trained as an accountant through the Institute of Chartered Accountants of England and Wales with Landau Morley in London.

**Frank Lewis (age 60) (Non-Executive Director) (with effect from Admission)**

Frank is a businessman with over 25 years of experience in both quoted and private companies. He has held board positions both in the UK and abroad with rapidly growing, mid-market companies. Quoted companies of which he was chairman include Lloyds British Testing Plc, an engineering services company, Jetcam International Holdings Limited, a software company, and Yoomedia Plc, an interactive television company. He is also a non-executive director of MTI Wireless Edge Ltd., a manufacturer of sophisticated antennas and antenna systems that is listed on AIM. Frank is a fellow of the Institute of Chartered Accountants of England and Wales and is also a member of the South African Institute of Chartered Accountants.

**FINANCIAL INFORMATION ON THE GROUP**

The following information has been extracted from the financial information contained in Part V of this document and should be read in conjunction with the full text of this document. So far as the Directors and Proposed Director are aware (and are able to ascertain from the information contained in the financial information in Part V of this document) no facts have been omitted which would render such information below inaccurate or misleading. In order to make a proper assessment of the financial position of the Group, investors should not rely solely on the summarised information set out below but should read the whole of this document, including the financial information set out in Parts IV and V of this document.

	Year ended 31 December 2003	Year ended 31 December 2004	Year ended 31 December 2005
<b>\$000's</b>			
Net sales	5,683	7,239	9,428
Operating profit	1,964	2,208	3,663
Profit after tax	1,006	1,085	2,453

**CURRENT TRADING**

For the six month period to 30 June 2006, net sales of the Subsidiaries increased by 28 per cent to \$5.79 million compared to \$4.51 million for the 6 month period to 30 June 2005; the Group's operating profit increased by 34 per cent to \$2.47 million compared to \$1.84 million for the 6 month period to 30 June 2005; and the Group's profit after tax increased by 69 per cent to \$2.08 million compared to \$1.23 million for the 6 month period to 30 June 2005.

For the 6 month period to 30 June 2006, the Group's EBITDA margin amounted to 60 per cent (including installation revenues) compared to the average of 28 per cent among the larger regional telecom operators; the EBITDA margin net of "one off" installation revenues was 39 per cent. The total number of active fixed subscriber lines in this period increased by 2.4 per cent (in comparison to the comparative interim period) in both residential and business segments and reached approximately 74,000 lines.

As part of the Group's strategy to identify suitable acquisition targets, the Company is currently in negotiations for the acquisition of a telecom operator in Kazan although no binding commitments have yet been entered into. Such acquisition would require additional capital to be raised by the Company.

## STRATEGY

The Group's strategy is to achieve stable growth in revenues and maintain strong cost controls. Its main objectives are:

1. to increase Teleset's network coverage within Kazan to reach additional potential customers (for example Teleset intends to launch new remote telephone exchanges in the Vakhitovsky, Privolzhsky and Sovietsky districts of Kazan, to which its current network does not extend);
2. to expand the range of services provided to Teleset's current and future customers in Kazan (for example Teleset plans to introduce cable TV services to its residential and corporate customers);
3. to establish POP's in other cities in Tatarstan by way of acquiring existing operators in those areas for integration into the existing Kazan network; and
4. to establish POP's in other regions of the Russia Federation through the acquisition of existing fixed-line operators.

## REASONS FOR ADMISSION

The Directors and Proposed Director believe that Admission will raise the profile of the Group amongst customers and suppliers, provide it with the opportunity to raise additional funds and to finance future acquisitions through the issue of new equity and will give Shareholders the ability to trade Ordinary Shares in an orderly manner. It will also provide the Company with the opportunity to implement an attractive incentive programme for management and staff through the adoption of the Share Option Plan.

## MARKET MAKER SHARES

The Company has issued, conditional on Admission, the Market Maker Shares at 18p per share to satisfy market maker positions and to create some liquidity.

## ADMISSION, SETTLEMENT AND CREST

Application has been made to the London Stock Exchange for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Ordinary Shares will commence on 12 October 2006.

Securities of certain non-UK incorporated companies, such as the Company, cannot be held or transferred in CREST, a computerised paperless share transfer and settlement system which allows shares and other securities to be held in electronic, rather than paper, form. However, to enable investors to settle such securities through CREST, a depositary or custodian can hold the relevant securities and issue DIs representing the underlying securities, which are held on trust for the holders of the DIs.

With effect from Admission, it will be possible for CREST members to hold and transfer interests in Ordinary Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will also be able to do so. The Ordinary Shares will not themselves be admitted to CREST. Instead, Computershare, acting as depositary, will issue DIs in respect of the underlying Ordinary Shares. The DIs will be independent securities constituted under English law, which may be held and transferred through CREST. DIs will have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing.

The DIs will be created and issued pursuant to a deed poll entered into by Computershare, which will govern the relationship between Computershare as depositary and the holders of DIs.

Application has been made by the Registrar for the DIs in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Holders of Ordinary Shares in certificated form who wish to hold DIs through CREST may be able to do so and should contact the Registrar. Further information on settlement arrangements is set out in paragraph 15 of Part VI of this document.

It is expected that, subject to the Introduction Agreement becoming unconditional:

- where such an election is made by a subscriber for Market Maker Shares, despatch of definitive share certificates (if applicable) will occur by post at the Shareholder's risk by 19 October 2006; or
- only if the subscriber is a "system member" (as defined in the CREST Regulations) in relation to CREST, CREST accounts will be credited with DIs representing the Market Maker Shares subscribed for on 12 October 2006.

No temporary documents of title will be issued. All documents or remittances sent by or to a subscriber, or as they may direct, will be sent through the post at their risk.

#### **LOCK-INS AND ORDERLY MARKET ARRANGEMENTS**

Each of the Lock-in Persons have undertaken to Metropol, Corporate Synergy and the Company subject to certain limited exceptions: not to dispose of any Ordinary Shares in which they have an interest at Admission within the first twelve months following Admission and within the period of 12 months following such first period, to do so only through Metropol in such orderly manner as Metropol shall reasonably determine with a view to ensuring an orderly market for the issued share capital of the Company.

Further details of these arrangements are set out in paragraph 10.2 of Part VI of this document.

#### **DIVIDEND POLICY**

The Board intends to adopt a dividend policy appropriate to the Company's financial performance. This will be subject to applicable law and to the need to maintain a prudent level of cash resources, facilitate the Board's strategy for the growth of the Company and provide for the distribution of a proportion of the Company's consolidated profit after tax. However, given this need it is unlikely that the Company will pay any dividends in the near future.

#### **CORPORATE GOVERNANCE**

The Directors and Proposed Director recognise the importance of sound corporate governance and intend that the Company will comply with the provisions of the combined code insofar as they are appropriate given the Company's size and stage of development and taking into account the Quoted Companies' Alliance Corporate Governance Guidelines for AIM Companies published in 2005. The Company has adopted a model code for director and applicable employee share dealings which, taking account of the fact that the Company is incorporated in Cyprus, is appropriate for a company whose securities are traded on AIM and is in accordance with Rule 21 of the AIM Rules.

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. Following Admission, the Company intends to hold Board meetings regularly.

The Company has established audit, nomination and remuneration committees of the Board with formally delegated duties and responsibilities.

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Company is properly measured and reported on. It will receive and review reports from the Company's management and auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. The audit committee will meet not less than three times each year and will have unrestricted access to the Company's auditors. The members of the audit committee are Frank Lewis (Chairman) and Ioannis Tirkides.

The remuneration committee will review the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The committee will also make recommendations to the Board on proposals for the granting of equity incentives pursuant to the Share Option Plan or any other equity incentive scheme in operation from time to time. The committee will meet at least quarterly and at such other times as the chairman of the committee shall require. The members of the remuneration committee are Ioannis Tirkides (Chairman), Frank Lewis and Philippos Vatiliotis.

The nomination committee will review the structure, size and composition required of the Board and make recommendations to the Board with respect to any changes. It will be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, keeping under review the leadership needs of the Group and reviewing annually the time required from non-executive directors. It will make recommendations to the Board concerning a number of items relating to Board composition (and that of the Board committees) and succession and the appointment of any director to executive or other office other than to the positions of Chairman and Chief Executive Officer. The committee shall meet at least two times each year and at such other times as the chairman of the committee shall require. The members of the nomination committee are Philippos Vatiliotis (Chairman), Ioannis Tirkides and Yiannis Demetriou.

#### **CITY CODE**

As the Company is incorporated in the Republic of Cyprus, it will not be subject to the City Code and any takeover of the Company is not expected to be regulated by the Panel. Accordingly, Shareholders will not be offered protection of certain key rules of the City Code such as the requirement for an offeror to make a mandatory offer for all Ordinary Shares once it controls 30 per cent of the Ordinary Shares; the obligation of an offeror to treat all shareholders of the same class equally; or the requirement that a board may not take any action that might frustrate a bid until the Company's shareholders can consider and decide upon the merits of a bid.

#### **SHARE OPTION PLAN**

The Board recognises the importance of the Group's employees to the performance of the Group's business and believes that performance based incentives are an effective way to motivate and retain high calibre employees and to align the interests of management and key employees. The Company therefore proposes to implement the Share Option Plan as part of its management incentive arrangement, further details of which are contained in paragraph 4 of Part VI of this document.

## PART III

### RISK FACTORS

**In addition to all other information set out in this document, the following specific risk factors should be considered carefully by potential investors in evaluating whether to make an investment in the Company. Investment in the Ordinary Shares described in this document may not be suitable for all of its recipients. Before making a final decision, investors in any doubt are advised to consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

You should carefully consider the risks described below and ensure that you have read this document in its entirety before making a decision to invest in the Company.

Prospective investors should be aware that an investment in the Company is speculative and involves a high degree of risk. In addition to the other information contained in this document, the Directors and Proposed Director believe that the following risk factors are the most significant and should be considered carefully in evaluating whether to make an investment in the Company. If any of the risks described in this document actually occurs, the Company may not be able to conduct its business as currently planned and its financial condition, operations and prospects could be seriously harmed. In that case, the market price of the Ordinary Shares could decline and all or part of an investment in the Ordinary Shares could be lost. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. Additional risks and uncertainties not presently known to the Company or Directors and Proposed Director and or which the Company or Directors and Proposed Director currently deem immaterial, may also have an adverse affect. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and tax requirements. The risks listed below are not set out in any particular order of priority.

#### **RISKS RELATING TO THE AIM MARKET**

##### **AIM liquidity and share price volatility**

Investment in shares traded on AIM is perceived to involve a higher degree of risk and to be less liquid than an investment in companies whose shares are listed on the Official List. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than those of the Official List. The future success of AIM and liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may have limited liquidity and therefore such Ordinary Shares may be or may become difficult to sell and investors may not therefore recover their original investment.

##### **There has been no public market in the Company's shares and the Company's share price may be highly volatile**

The share price of emerging companies can be highly volatile. The price at which the Ordinary Shares are traded and the price at which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect companies trading on AIM generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

Prior to Admission, there has been no public market for the Ordinary Shares and there is no guarantee that an active trading market will develop or be sustained after Admission.

#### **RISKS RELATING TO THE GROUP'S COMPANIES, BUSINESS AND INDUSTRY**

##### **The Group's success depends on a range of factors outside its control**

Demand for the Group's services depends upon a range of factors outside the Group's control, including demographic factors, general economic conditions and the availability of disposable income and general levels of business and consumer confidence. A decline in business confidence and/or consumer demand in the markets in which the Group operates could substantially reduce the Group's revenue and thus may have a material adverse effect on its business.

##### **Expansion of the Group's business may place a significant strain on its resources**

The Group's business has been expanding rapidly and is expected to continue to do so for the foreseeable future. Management of such growth increases the operating complexity of the Group's business and may

place a significant strain on its managerial, financial and operational resources. To ensure operating efficiency throughout such growth will require, among other things, continued development of financial, operational and management systems, increased marketing activities and hiring and training of new personnel (including management personnel). The Group will also need to maintain close co-ordination among its logistical, technical, accounting, finance, marketing and sales personnel. If it is unable to achieve any of these objectives, the Group's business could be materially adversely affected.

**Teleset's tariffs are subject to regulated caps**

Applicable legislation imposes limits on the tariffs that Teleset may charge for services provided to its customers and this may restrict its ability to increase margins in the absence of cost reductions. Connection fees, line rental fees, fixed monthly fees and fees for timed traffic are all subject to those limits.

**Failure to renew the Group's telecommunications licences or obtain new telecommunications licences on similar terms could have a material adverse effect on the Group's business**

There can be no assurance that the Group will continue to be able to renew its telecommunications licences on acceptable terms as they expire. These licences are fundamental to it being able to continue in business. Certain licences expire at the end of 2007 and others expire in the middle of 2010. Certain licence applications are being examined by the authorities. If the Group is unable to renew these licences as they expire, or if the Group's existing licences are terminated for any reason or if their terms are revised to the Group's detriment, or if the licences applications which are currently being examined are not granted, such failures could have a material adverse effect on the Group's business. The Company presently expects that appropriate licences will be renewed as they expire and that any required licence applications will be granted. However, there can be no certainty that this will be the case, although the Company considers that its expectation is justified because it has successfully applied for the renewal of many licences in the past.

**Failure to obtain administrative registrations for the acquisition by the Group of certain premises compromises the relevant Subsidiary's title to such premises and therefore its ownership rights**

Teleset currently occupies three premises in respect of which no certificate of title from the state confirming ownership of the premises has been obtained. Legal title to these premises cannot therefore be confirmed and in the event that Teleset's rights in respect of these premises were challenged successfully, this could have a negative effect on Teleset's business as a result of it being required to vacate such premises.

**If the Group is unable to maintain its favourable brand image and protect its intellectual property rights from infringement, its business could be materially adversely affected**

As the Group's success depends to a significant extent upon brand recognition and the goodwill associated with it, the Group's brand names are key assets of the Group's business. Maintaining the reputation of the Group's brand names is critical to the Group's success. Substantial erosion in the value of the Group's brand names due to customer complaints, adverse publicity, legal action or other factors could have a material adverse effect on the Group's business. There can be no assurance that the Group's strategy and its implementation will maintain the value of these brands. The Russian Federation generally offers a lower level of intellectual property rights enforcement than countries in the European Union. The Group cannot be certain that steps to protect its brand names, including the registration of business trade names and marks will be sufficient or that third parties will not infringe or challenge such rights. If the Group is unable to protect such intellectual rights against infringement, it could have a material adverse effect on its business.

**Increased competition from domestic and international competitors may reduce the revenue and profitability of the Group**

The Group's longer-term growth is dependent upon the impact of competition. If competitors develop or expand similar services in the targeted markets the revenue and profitability of the Group may be affected, particularly as certain competitors may have greater financial resources. The Group believes that it will increasingly face competition in all aspects of its business operations. There is no guarantee that the Group will be able to continue to effectively and economically compete with domestic and international competitors.

**The Group's insurance policies could prove insufficient to cover all potential losses and liabilities of the Group**

The Group has insurance policies covering certain equipment and vehicles. However, there can be no assurance that such insurance policies will be sufficient to cover in full losses arising as a result of a business interruption or damage to the Group's property as a result of fire, explosion, flood or other circumstances. The sums insured under these policies in some cases are less than the net book value of the corresponding assets. There

can be no assurance that if the Group suffers material losses or incurs a significant liability the Group's insurance policies will be sufficient to cover such losses or liability. The Group does not have in place policies to cover typical risks including professional indemnity insurance and employer's liability. If the Group suffers loss from such risks and others in respect of which it does not have insurance this may materially and adversely affect the Group's business, financial condition and operating results. However, the Group has in place all policies which it is legally required to have in place.

**The Group's reliance on potentially incomplete and distorted Russian official data could have a material adverse effect on its business planning and its business in general**

Official data published in the Russian Federation are substantially less complete and reliable than those of countries with more developed market economies and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable. Official statistics may also be produced on different bases to those used in more developed countries. Due to the unavailability of alternative, reliable sources of country-specific statistics, the Group necessarily relies to some extent on official data in its business planning. Therefore, assumptions made by the Group in its business plans may prove to be incorrect, which could have a material adverse effect on its business.

**Future acquisitions of the Group could expose it to various risks**

Future acquisitions could expose the Group to potential risks, including risks associated with the assimilation of new operations, services and personnel, unforeseen or hidden liabilities, the diversion of resources from the Group's existing businesses and technologies, the inability to generate sufficient revenue to offset the costs of acquisitions and potential harm to relationships with employees and external parties as a result of integration of new businesses. Future acquisitions could also require the Group to incur debt or issue debt or equity securities, which may dilute the interest of existing shareholders. Any failure to successfully implement acquisitions or strategic investments could have a material adverse effect on the Company's business.

**The Group depends heavily on its Directors and Proposed Director and key managers and its continued ability to attract and retain highly qualified employees**

The Group's business is dependent on retaining the services of certain key members of the management team and of the Board as the business develops. While the Group has entered into employment contracts with such employees, the retention of their services cannot be guaranteed. It is impossible under Russian employment law to restrict the ability of the Group's employees to set up in competition. Additionally, a person working in the Russian Federation automatically becomes subject to Russian labour law regardless of that person's nationality and the governing law of his/her employment contract. Russian courts would not enforce "non-compete" provisions of an employment contract and would also refuse to enforce a foreign judgment obtained on the basis of such a contract.

The Group is not insured against damage that may be incurred in case of loss or dismissal of any member of the Board, its key specialists or managers. The loss of any members of the Board or its key management may have an adverse effect on the Group's business.

The Group's future success will also depend on its continued ability to attract, retain and motivate highly qualified sales, engineering, technical, customer support, financial and accounting, marketing, promotional and managerial personnel. The competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals and the Group attempts to structure compensation packages in a manner consistent with the evolving standards of the Russian labour market. The failure to successfully manage its personnel needs would materially and adversely affect the Group.

**The power of the general director of each Russian subsidiary is more wide-ranging than would customarily be given to directors of subsidiary companies**

The general director of the Subsidiaries has the corporate power and authority by virtue of his position to bind it in the ordinary course of business. This power is more wide-ranging than would customarily be given to directors of subsidiary companies and this control (and related risk) is therefore greater than would usually be anticipated. However, Russian law has a concept of a "major transaction" which is a transaction involving property valued at more than 25 per cent of the balance sheet value of the assets of a company except for transactions carried out in the ordinary course of business. Should any agreement constitute a major transaction for a company it would require approval by the company's participants/shareholders. If this approval requirement is not complied with, such transaction may be declared invalid on a claim by the company or its participants/shareholders.

**The Group's ability to raise necessary funding on favourable terms**

The Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms. The Group's future capital requirements depend on many factors, including its ability to expand current business. To the extent that funds are insufficient to fund future operating requirements, the Group may need to raise additional funds through financings or curtail its growth. Any equity or debt financing, if available at all, may be on terms that are not favourable to the Group and may dilute the interest of existing shareholders. If the Group cannot obtain adequate capital on favourable terms or at all, its business, operating results and financial condition could be adversely affected.

**RISKS RELATING TO THE POLITICAL ENVIRONMENT IN RUSSIA**

**Political and governmental instability could adversely affect the value of investments in Russia**

Investors in an emerging market such as Russia should be aware that these markets are subject to greater political risks than more developed markets.

Governmental instability could adversely affect the value of investments in Russia and the value of the Ordinary Shares.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally-planned economy to a free market economy. As a result of the sweeping nature of the reforms, and the failure of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990's, as well as to demands for autonomy from particular regional and ethnic groups. Future changes in government, major policy shifts or lack of consensus between various branches of the government and powerful economic groups could also disrupt or reverse economic and regulatory reforms.

**Crime and corruption could disrupt the Group's ability to conduct business in Russia**

The political and economic changes in Russia since the early 1990's have resulted in significant dislocations of authority. The local and international press have reported that significant organised criminal activity has arisen, particularly in large metropolitan centres. In addition, the local and international press have reported high levels of official corruption. Additionally, published reports have indicated that a significant number of Russian media outlets regularly publish disparaging articles in return for payment. The depredations of organised or other crime or demands of corrupt officials could in the future disrupt the Group's ability to conduct its business effectively and could thus materially and adversely affect its business.

**Social unrest in Russia could restrict the Group's operations**

The failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living in Russia have led in the past, and could lead in the future, to labour and social unrest. Labour and social unrest may have political, social and economic consequences, such as increased nationalism, restrictions on foreign involvement in the Russian economy and increased violence. Any of these or similar consequences of social unrest could restrict the Group's operations and lead to the loss of revenue, materially adversely affecting its business and financial condition.

**Ethnic and other conflicts create an uncertain operating environment that could hinder the Group's long-term planning ability and decrease the value of investments in Russia**

Possible conflict between central and regional authorities and other conflicts could create an uncertain operating environment hindering the Group's long-term planning ability and could adversely affect the value of investments in Russia.

In addition, the Russian Federation continues to suffer from ethnic conflicts and tensions between various regions, including the struggle between rebel groups in the Chechnya region and the federal government. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of the Russian Federation, could have significant political consequences, including the imposition of a state of emergency in some or all of the Russian Federation. Any resulting disruptions to Russian commerce could have a material adverse effect on the Group, the value of its investments and operations in the Russian Federation and the Ordinary Shares.

## **RISKS RELATING TO THE ECONOMIC ENVIRONMENT IN RUSSIA**

### **Emerging markets such as Russia, are subject to greater risks than more developed markets and financial turmoil in one of these markets could disrupt the Group's business**

Investors in an emerging market such as Russia should be aware that these markets are subject to greater economic risk than more developed markets. Investors should also note that emerging economies such as the economy of Russia are subject to rapid change and that the information set out in this document may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in an emerging market is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisers before making an investment in the Ordinary Shares.

### **Economic instability in Russia could adversely affect the Group's business**

The Russian economic environment has been subject to hyperinflation, debt crisis, and political turmoil in the past. All of the Group's operations are based in Russia and are therefore dependent on the overall economic environment of the country. Recent strength in Russia's GDP, higher tax collection, and stability of the local currency, the rouble, has assured a certain degree of economic soundness. The sustainability of such a trend is not guaranteed, and if a downturn does occur, it will directly impact the profitability of the Group. Any of the following risks may seriously change the investment climate in Russia and in turn burden the Group's business operations with unforeseen costs:

- high level of corruption and penetration of criminals into the economy;
- instability in the local currency market;
- severe decline in Russia's GDP;
- high level of inflation;
- higher level of capital flight;
- political instability caused by a sudden change in, or shift in, policy of the administration;
- sudden price decline in the natural resource sector;
- widespread tax evasion;
- high level of black and grey market economy;
- the impoverishment of a large portion of the Russian population; and
- underdevelopment of the Russian banking system and a limited number of credit worthy Russian banks.

### **Fluctuation in the global economy could adversely affect the Russian economy and the Group's business**

Fluctuations in the global economy may adversely affect the Russian economy and the Group's business. Russian and neighbouring markets are vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and businesses in Russia could face severe liquidity constraints, further adversely affecting their economies. Additionally, because Russia produces and exports large amounts of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the oil price could slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices, and pose additional risks to the Russian economy. Russia is also a major producer and exporter of metal products and its economy is vulnerable to world commodity prices and/or the imposition of tariffs by the United States, the European Union or by other principal export markets.

### **Rouble devaluation could adversely affect the Group's business**

A decline in the value of the Rouble against other hard currencies may result in a decrease in the Company's net profit and shareholders' equity.

### **Foreign exchange restrictions**

Legislation in the Russian Federation may restrict the ability of the Subsidiaries to pay dividends to the Company in any currency other than RUR or for the Company to exchange such monies into other currencies.

**Physical infrastructure in Russia is in very poor condition**

Physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are communication systems, the rail and road networks, power generation and transmission, gas transmission and building stock.

**RISKS RELATING TO RUSSIAN LEGISLATION AND THE RUSSIAN LEGAL SYSTEM**

**Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and thus could have a material adverse effect on the Group's business and the value of the Ordinary Shares**

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that the Group makes, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the President, the government and federal ministries; and (3) regional and local laws, rules and regulations;
- the lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting Russian legislation;
- alleged corruption within the judiciary and the governmental authorities;
- a high degree of unchecked discretion on the part of governmental authorities;
- problematic and time-consuming enforcement of both Russian and non-Russian judicial orders;
- a lack of true separation of power between the executive, judicial and legislative areas of government; and
- bankruptcy procedures that are not well developed and are subject to abuse.

**Unlawful, selective or arbitrary government action may have an adverse effect on the Group's business and the value of the Ordinary Shares**

Governmental regional and local authorities in Russia at times act selectively or arbitrarily, without hearing or prior notice, and sometimes in a manner that is influenced by political or commercial considerations. Moreover, the government authorities also have the power in certain circumstances, by regulation or government act, to interfere with the performance of contracts. Unlawful, selective or arbitrary governmental actions have reportedly included sudden and unexpected tax audits and criminal prosecutions.

**Net assets requirements under Russian law may cause involuntary liquidation of some members of the Group, which could cause the Group's financial results to suffer**

Under Russian legislation, if a stock company's net assets fall below certain minimum legal requirements, it is required to decrease its charter capital and in certain circumstances governmental authorities may seek involuntary liquidation of such company. If involuntary liquidation were to occur, or if the Subsidiaries were unable to meet their obligations to creditors, the Company may need to restructure its operations, with attendant material costs.

**The judiciary's lack of independence and inexperience, the difficulty of enforcing court decisions and governmental discretion in enforcing claims could prevent the Group from obtaining effective redress in a court proceeding in Russia**

Russian courts may force a Russian legal entity into liquidation on the basis of formal non-compliance with certain requirements of Russian law but only if such non-compliance is material and irremediable. Russian law provides for certain requirements which should be complied with in the course of establishing and reorganising a Russian company. Certain provisions of Russian law may allow a court to order liquidation of a Russian legal entity on the basis of its formal non-compliance with certain requirements during formation of such entity or during its operation. Subsidiaries might have failed on occasion to comply fully with all the applicable legal requirements. Weaknesses in the Russian legal system create an uncertain legal environment, which makes the decisions of a Russian court or a governmental authority difficult, if not impossible, to predict. If a Russian court or a governmental authority takes a position unfavourable to the Group, it could materially and adversely affect the Group and its business. The independence of the judicial system and the prosecutors' general office and their immunity from economic, political and nationalistic influences in Russia remain largely untested.

**Potential restrictions on the ability of companies owning assets/subsidiaries in the Russian Federation to be listed on a foreign stock exchange**

Recently, the Russian Federal Service for Financial Markets (“FSFM”) has publicly expressed its disapproval of foreign exchange listings of securities of foreign issuers the main assets of which are shares or participation interests in Russian companies. Although the current Russian legislation does not prevent the admission of the Company to AIM because the Company is not a Russian issuer, there is no assurance that FSFM’s possibly unfavourable opinion of Admission and the issue of the Market Maker Shares will not result in some unlawful, selective or arbitrary governmental action against the Company or the Subsidiaries.

**If the Russian competition authorities were to conclude that the Group acquired a company in contravention of antimonopoly legislation, it could impose administrative sanctions and/or petition a Russian court to invalidate the transactions, which could have a material adverse effect on the Group’s business**

The transfer of the Subsidiaries from TeleDev East to the Company required prior notification to the competition authorities in the Russian Federation and their prior consent to such transfer. The relevant legislation restricts the acquisition, transfer or founding of companies by groups of companies or individuals acting in concert without prior approval (over a certain threshold, calculated with reference to aggregate asset value) or notification. This legislation is vague in certain parts, ambiguous and subject to varying interpretations. In certain cases, including in connection with the transfer of assets into the Group and entry into a lease of certain assets, the relevant Subsidiary had not obtained prior approval of the competition authorities as required in connection with that acquisition and the lease. It has since notified the authorities in relation to the transfer of assets and the lease and received due official confirmation of such notification. If a Russian court, upon an application to it by the competition authorities, were to conclude that an acquisition of part or all of a company was made in contravention of applicable legislation and competition has been reduced as a result, it could theoretically declare such transactions invalid. The maximum administrative fine that could be imposed for each event of non-compliance with competition requirements is RUR 500,000 which is approximately \$18,000.

**Uncertainty of Russian corporate governance rules**

Due to uncertainty in the proper interpretation of Russian corporate governance rules, wide variation in the corporate governance practices of Russian companies, and rapid developments in relevant legislation, it may be argued that certain transactions or actions by members of the Group or their predecessors in interest were not approved by all requisite corporate action or otherwise contradicted Russian legal requirements. If successfully challenged by state authorities, shareholders, transaction counterparties or other persons interested in such a challenge, such transactions or actions could be invalidated. The invalidation of such transactions or actions could have an adverse effect on the Group’s business.

**Certain agreements may be terminated on short notice**

The Company has entered into various “interconnectivity” contracts with other telecommunications operators which can be terminated on short notice. These contracts govern the terms on which the Company and other telecommunications operators provide telecommunications services to each other and to each other’s customers. Many of these contracts are for a one year period but automatically renew for one year periods unless either party gives notice to terminate in which case the contract will terminate at the end of the year in which notice was given. One contract may be terminated on thirty days’ written notice from either party. If some or all of these contracts were terminated this would have a material adverse effect upon the quality of the service the Company is able to offer its customers and so would materially adversely affect the Company’s financial condition. The Company has no reason to believe that any of the counterparties to these contracts intend to terminate them.

**Russian law may expose the Company to liability for actions taken by its subsidiaries, equity affiliates or joint venture entities**

Under Russian law, the Company may be jointly and severally liable for any obligations of a subsidiary, equity affiliate or joint venture entity under a transaction if:

- the Company has the ability to issue mandatory instructions to the subsidiary, equity affiliate or joint venture entity or in a contract between the Company and them; and
- the subsidiary, equity affiliate or joint venture entity concluded the transaction pursuant to the Company’s mandatory instructions.

In addition, the Company may have secondary liability for any obligations of a subsidiary, equity affiliate or joint venture entity if:

- the subsidiary, equity affiliate or joint venture entity becomes insolvent or bankrupt due to the Company's actions or its failure to act; and
- the Company has the ability to make decisions for the subsidiary, equity affiliate or joint venture entity as a result of the Company's ownership interest, the terms of a contract between the Company and them, or in any other way.

In either of these circumstances, the shareholders of the subsidiary, equity affiliate or joint venture entity may seek compensation from the Company for the losses sustained by the subsidiary, equity affiliate or a joint venture entity if the Company knew that the action taken pursuant to its instructions or the failure to act would result in loss. This type of liability could result in significant obligations and adversely affect the business, results of operations and prospects of the Company, and the value of the Ordinary Shares.

#### **Limited Liability under Russian law may be compromised**

Under Russian law the Company will be jointly and severally liable for the transactions entered into by Teleset and Teleset Invest where those transactions are entered into on the instructions of the Company. In addition in the event of the insolvency of those subsidiary companies, the Company may be liable for any deficit to creditors in certain circumstances.

### **RISKS RELATING TO THE RUSSIAN TAXATION SYSTEM**

#### **Weaknesses of the Russian taxation system could adversely affect the business of the Group**

Russian tax law and practice is not clearly established and the taxation system in Russia is subject to frequent change and inconsistent enforcement at the federal, regional and local levels. Accordingly, it is possible that the Group could become subject to taxation in Russia that is not anticipated and which could have a material adverse effect on the Group.

#### **The Group's operations are subject to taxation in several jurisdictions**

Although the Group's operations are currently located in Russia, the Group is also subject to the tax laws of Cyprus. The combined effect of the application to the Group of the tax laws of more than one of these jurisdictions and/or their interpretation by the relevant tax authorities could, under certain circumstances, produce contradictory results (including recognition of taxable permanent establishments) and/or materially and adversely affect the Group's business, financial condition and operating results.

#### **Potentially wide interpretation of Russian transfer pricing legislation**

The Group may be adversely affected if governmental authorities were to successfully challenge certain arrangements from which it currently benefits or has benefited in the past.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations.

Arrangements to reduce the Group's liabilities for taxes and other governmental changes may be subject to challenge by relevant authorities. Russian authorities have in the recent past successfully challenged various tax optimisation arrangements used by other Russian companies. Accordingly, there can be no assurance that any opposition the Group could raise against any such challenge would be successful. Because governmental authorities have broad discretion to seek civil, administrative and/or criminal penalties, the results of a successful challenge could have a material adverse effect on the Group's operations and financial position.

**Teleset may be subject to tax investigations in the future**

Teleset and Teleset Invest carry on complimentary businesses which they propose to merge in 2007.

The Russian tax authorities will be notified of the planned merger. The proposed merger can give the Russian tax authorities the right to carry out tax inspections of all aspects of the companies' affairs including transfer pricing, covering the three calendar years prior to the merger, even though the tax authorities have already undertaken and concluded their tax inspection of Teleset for the calendar years 2004 and 2005 (and prior years).

## PART IV

### FINANCIAL INFORMATION

#### ACCOUNTANTS' REPORT ON TELESET NETWORKS PUBLIC COMPANY LIMITED



St Alphage House  
2 Fore Street  
London EC2Y 5DH

Phone 020 7216 4600  
Fax 020 7638 2159  
Email london@uhy-uk.com  
Web www.uhy-uk.com

The Directors  
Teleset Networks Public Company Limited  
89 Lemesou  
2121 Aglantzia  
Nicosia  
Cyprus

and

The Directors  
Corporate Synergy Plc  
30 Old Broad Street  
London  
EC2N 1HT

6 October 2006

Dear Sirs

#### **Teleset Networks Public Company Limited (the Company)**

We report on the financial information set out in Sections 1 to 4 below. This financial information has been prepared for inclusion in the AIM admission document dated 6 October 2006 of the Company on the basis of the accounting policies set out in section 1. This report is required by the AIM Rules and is given for the purpose of complying with the AIM Rules and for no other purpose.

The Company was incorporated in Cyprus on 19 June 2006 with registered number HE178378 with an authorised share capital of 25,000 CYP comprising 25,000 ordinary shares of 1 CYP each of which 21,904 ordinary shares were issued on incorporation and are fully paid.

#### **Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in section 1 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the AIM admission document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 6 October 2006, a true and fair view of the state of affairs of the Company as at 19 June 2006 and of its results, cash flows and recognised gains and losses for the period then ended in accordance with the basis of preparation set out in section 1 and in accordance with International Financial Reporting Standards.

**Declaration**

For the purposes of paragraph a of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**UHY Hacker Young**  
Chartered Accountants

## 1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the Company.

### Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards.

## 2. Balance sheet

	Notes	As at 19 June 2006 CYP
<b>Current assets</b>		
Bank and cash		21,904
<b>Net assets</b>		<u>21,904</u>
<b>Capital and reserves</b>		
Called up share capital	4.1	<u>21,904</u>
<b>Shareholders' funds</b>		<u>21,904</u>

## 3. Cash flow statement

	Notes	Period ended 19 June 2006 CYP
Net cash flow from activities		–
Financing: issue of shares		<u>21,904</u>
Increase in cash in the period		<u>21,904</u>
<b>Reconciliation of net cash flow to movement in net funds</b>		
Increase in cash in the period	4.2	21,904
Changes in net funds		–
Net funds at start of period		–
Net funds at end of period	4.2	<u>21,904</u>

## 4. Notes to the financial information

### 4.1 Share capital

	As at 19 June 2006 CYP
Authorised: 25,000 ordinary shares of 1 CYP each	25,000
Allotted and called up: 21,904 ordinary shares of 1 CYP each	<u>21,904</u>

### 4.2 Reconciliation of net cash flow to movement in net funds

	Period ended 19 June 2006 CYP
Opening shareholders' funds	–
Shares issued	<u>21,904</u>
Closing shareholders' funds	<u>21,904</u>

4.3 *Post balance sheet events*

By shareholders' resolutions passed on 11 September 2006 it was resolved that:

- (a) each existing issued and unissued ordinary share of 1 CYP each be divided into 100 ordinary shares of CYP 0.01 nominal value each so that the authorised capital is amended from CYP 25,000 divided into 25,000 ordinary shares of CYP 1.00 each to CYP 25,000 divided into 2,500,000 ordinary shares of CYP 0.01 each;
- (b) the authorised share capital of the Company be increased from CYP 25,000 divided into 2,500,000 ordinary shares of CYP 0.01 to CYP 1,125,000 divided into 112,500,000 ordinary shares of CYP 0.01 each by the creation of a further 110,000,000 ordinary shares of CYP 0.01 each, ranking *pari passu* with the existing ordinary shares of CYP 0.01 each in the capital of the Company; and
- (c) an additional 100,000,610 ordinary shares of nominal value of CYP 0.01 to be allotted to the existing shareholders in Teleset Limited and Teleset Invest Limited at a premium of CYP 0.14728 and paid for by a capital contribution in kind to the Company of their total holdings in Teleset Limited and Teleset Invest Limited as sanctioned by the written resolution of the Company of 19 June 2006 for the total amount of CYP 15,728,096 resulting in a total nominal issued share capital of the Company at that time of CYP 1,021,910 divided into 102,191,010 ordinary shares of CYP 0.01 each.

Full details of the shareholders' resolutions are set out in Part VI of the AIM admission document.

## PART V(a)

### FINANCIAL INFORMATION

#### ACCOUNTANTS' REPORT ON THE SUBSIDIARIES



St Alphage House  
2 Fore Street  
London EC2Y 5DH

Phone 020 7216 4600  
Fax 020 7638 2159  
Email london@uhy-uk.com  
Web www.uhy-uk.com

The Directors  
Teleset Networks Public Company Limited  
89 Lemesou  
2121 Aglantzia  
Nicosia  
Cyprus

and

The Directors  
Corporate Synergy Plc  
30 Old Broad Street  
London  
EC2N 1HT

6 October 2006

Dear Sirs

#### **TELESET LIMITED AND TELESET INVEST LIMITED (TOGETHER "TELESET GROUP")**

We report on the financial information set out in Sections 1 to 4. This financial information has been prepared for inclusion in the AIM admission document dated 6 October 2006 of Teleset Networks Public Limited Company on the basis of the accounting policies set out in paragraph 4.4. This report is required by the AIM Rules and is given for the purpose of complying with the AIM Rules and for no other purpose.

#### **Responsibilities**

The directors of the companies comprising Teleset Group are responsible for preparing the financial information on the basis of preparation set out in paragraph 4.1 and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the AIM admission document, and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion**

In our opinion, the financial information gives, for the purposes of the AIM admission document dated 6 October 2006, a true and fair view of the state of affairs of Teleset Group as at the dates stated and of its profits and cash flows for the periods then ended in accordance with the basis of preparation set out in note 4.1 and has been prepared in a form that is consistent with the accounting policies as set out in note 4.4.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the AIM admission document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM admission document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

**UHY Hacker Young**  
Chartered Accountants

**1. Profit and loss accounts**

		Year to 31 December 2003	Year to 31 December 2004	Year to 31 December 2005
	Notes	US\$	US\$	US\$
Operating revenue	4.5	5,683,022	7,239,620	9,428,686
Operating expenses	4.6	(3,718,541)	(5,031,196)	(5,765,196)
Profit from operations		1,964,481	2,208,424	3,663,490
Other operating income		150,512	96,323	19,492
Operating profit before financing costs		<b>2,114,993</b>	<b>2,304,747</b>	<b>3,682,982</b>
Financial income	4.7	215,662	269,971	607,346
Financial expenses	4.7	(146,590)	(742,866)	(946,515)
<b>Net financing income/(costs)</b>		69,072	(472,895)	(339,169)
<b>Profit before tax</b>		2,184,065	1,831,852	3,343,813
Taxation	4.8	(1,177,844)	(746,922)	(890,414)
<b>Profit for the year</b>		<b>1,006,221</b>	<b>1,084,930</b>	<b>2,453,399</b>

**2. Balance sheets**

		As at 31 December 2003	As at 31 December 2004	As at 31 December 2005
	Notes	US\$	US\$	US\$
<b>Assets</b>				
Property, plant and equipment	4.9	16,247,446	16,359,174	16,653,037
Intangible assets	4.10	153,964	131,452	101,682
Total non current assets		16,401,410	16,490,626	16,754,719
Inventories	4.11	589,267	758,297	873,268
Amounts due by related companies	4.12	211,582	439,268	1,314,736
Trade and other receivables	4.13	1,974,105	2,733,295	2,578,749
Cash and cash equivalents	4.14	582,541	6,218,794	9,720,596
<b>Total current assets</b>		<b>3,357,495</b>	<b>10,149,654</b>	<b>14,487,349</b>
<b>Total assets</b>		<b>19,758,905</b>	<b>26,640,280</b>	<b>31,242,068</b>
<b>Equity and liabilities</b>				
<b>Capital and reserves</b>				
Share capital	4.15	14,301,279	14,867,324	15,416,933
Reserves	4.16	(908,191)	(396,945)	2,003,823
		13,393,088	14,470,379	17,420,756
<b>Current liabilities</b>				
Trade and other payable	4.19	1,046,727	1,442,573	1,313,150
Advances	4.20	79,596	184,400	349,411
Deferred taxation	4.18	513,461	747,190	834,065
Amounts due to related companies	4.12	82,257	164,156	152,314
Interest on loan from BSTDB		–	37,093	172,056
Loan from holding company		4,445,710	2,945,710	1,000,000
Interest on loan from holding company		198,066	648,779	316
		6,365,817	6,169,901	3,821,312
<b>Non current liabilities</b>				
Loan from BSTDB	4.17	–	6,000,000	10,000,000
<b>Total equity and liabilities</b>		<b>19,758,905</b>	<b>26,640,280</b>	<b>31,242,068</b>

## 3. Cash flow statements

	Year to 31 December 2003 US\$	Year to 31 December 2004 US\$	Year to 31 December 2005 US\$
<b>Cash flows from operating activities</b>			
Profit for the year before taxation	2,184,065	1,831,852	3,343,813
Adjustments for:			
Interest income	(59,568)	(74,172)	(544,983)
Interest expense	57,567	587,878	761,657
Depreciation of property, plant and equipment	1,715,098	1,804,442	1,983,512
Amortisation of intangible assets	22,412	102	29,770
Loss/(profit) on disposal of property, plant and equipment	(43,833)	(46,101)	510
Loss on disposal of intangible assets	–	22,410	–
<b>Operating profit before working capital changes</b>	<b>3,875,741</b>	<b>4,126,411</b>	<b>5,574,279</b>
(Increase)/ decrease in inventories	(12,724)	(169,030)	(114,971)
(Increase)/decrease in trade and other receivables	(168,837)	(759,190)	154,546
Increase/(decrease) in trade and other payables	384,944	338,821	(124,407)
Increase in advances from customers	1,140	104,804	165,011
Decrease/(increase) in amounts due by related companies	410,031	(30,750)	35,064
(Decrease)/increase in amounts due to related companies	34,205	81,899	(11,842)
Cash generated from operations	4,524,500	3,692,965	5,677,680
Interest paid	(273)	(100,072)	(1,275,157)
Interest received	59,568	74,172	544,983
Taxation paid	(664,383)	(513,193)	(803,539)
<b>Net cash from operations</b>	<b>3,919,412</b>	<b>3,153,872</b>	<b>4,143,967</b>
<b>Cash flows from investing activities</b>			
Loans to related companies	(192,669)	(196,937)	(910,531)
Acquisition of property, plant and equipment	(1,907,026)	(1,969,239)	(2,340,012)
Proceeds from the sale of property, plant and equipment	133,996	156,196	57,111
<b>Net cash from investing activities</b>	<b>(1,965,699)</b>	<b>(2,009,980)</b>	<b>(3,193,432)</b>
<b>Cash flows from financing activities</b>			
Issue of share capital	807,670	566,045	549,609
Proceeds from BSTDB loan	–	6,000,000	4,000,000
Loan from holding company	(2,524,290)	(1,500,000)	(1,945,711)
Dividend paid	–	(573,684)	(52,631)
<b>Net cash from financing activities</b>	<b>(1,716,620)</b>	<b>4,492,361</b>	<b>2,551,267</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>237,093</b>	<b>5,636,253</b>	<b>3,501,802</b>
<b>Cash and cash equivalents at the start of the year</b>	<b>345,448</b>	<b>582,541</b>	<b>6,218,794</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>582,541</b>	<b>6,218,794</b>	<b>9,720,596</b>

#### **4. Notes to the financial information**

##### **4.1 Basis of aggregation**

The results of Teleset Limited and Teleset Invest Limited have been aggregated to arrive at the results set out in this report. Any intercompany transaction and balances between the companies comprising the Teleset Group have been excluded.

The financial statements, which have been prepared under the historical cost basis and in accordance with International Financial Reporting Standards, are for the three years ended 31 December 2005 and are expressed in United States Dollars.

##### **4.2 Incorporation and principal activities**

Teleset Limited was incorporated in the Republic of Tatarstan, Russian Federation on 26 September 1996 as a limited liability company in accordance with the provisions of the Russian Law and Regulations.

Teleset Invest Limited was incorporated in the Republic of Tartarstan, Russian Federation on 8 September 1998 as a limited liability company in accordance with the provisions of Russian Law and Regulations.

The principal activity of the Teleset Group is the development, operation and maintenance of a comprehensive telecommunication service in Kazan in the Republic of Tatarstan, Russian Federation.

##### **4.3 Basis of presentation**

The financial statements are for the 3 years ended 31 December 2005 and are expressed in United States Dollars.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS's) and its interpretations as adopted by the European Union (EU) and International Financial Reporting Standards (IFRS's) and its interpretations adopted by the International Accounting Standards Board (IASB). The financial statements comply with both these reporting frameworks because at the time of their preparation all applicable IFRSs and its interpretations adopted by the IASB have been adopted by the EU through the endorsement procedure established by the European Commission.

##### **Russian environment**

Over recent years, the Russian Federation has undergone substantial political and economic change. As an emerging market, Russia does not possess a well-developed business infrastructure, which generally exists in a more mature free market economy. As a result, operations carried out in Russia involve significant risks, which are not typically associated with those in developed markets. Instability in the market reform process could subject the Teleset Group to unpredictable changes in the basic business infrastructure in which they are currently operating. Uncertainties regarding the political, legal, tax or regulatory environment, including the potential for adverse changes in any of these factors could significantly affect the ability of the Teleset Group to operate commercially. Management is unable to estimate what changes may occur or the resulting effect of any such changes on the Teleset Group's financial condition or future results of operations.

##### **4.4 Accounting policies**

###### **Basis of preparation**

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The main accounting policies applied for the preparation of these financial statements are presented below. These policies have been applied consistently for all the years presented in these financial statements.

#### 4.4.1 Basis of translation

The reporting currency of the Teleset Group is the Russian Ruble. In order to translate the financial statements into United States Dollars the transactions relating to property, plant and equipment, stocks and prepayments were converted based on the exchange rate ruling on the date that the relevant payments were effected. Monetary assets and liabilities, except those that are index linked, are translated using the rate of exchange ruling at the balance sheet date. The income statement is converted based on the exchange rate ruling on the date the relevant transacting payments were effected. The gains or losses on the net monetary position are included in the income statement.

The Teleset Group's principal operating cash flows (revenues, production costs and operating expenses) are generated from operations in Russia whereas it has significant outflows for repayment of loans denominated in United States Dollars. As a result, movements in the exchange rate between the Rouble and United States Dollar affect the carrying value of the Teleset Group's monetary assets and liabilities. Such changes may also affect the Teleset Group's ability to realise non-monetary assets in Russia as represented in terms of United States Dollars in these financial statements.

#### 4.4.2 New International Financial Reporting Standards which will be in use in future periods

The following International Financial Reporting Standards had been issued at 31 December 2005, but have not been applied by the Teleset Group, because their first time adoption falls in future periods.

##### *IFRS 6: Exploration for and Evaluation of Mineral Resources*

This standard is applied for periods beginning on or after 1 January 2006. The application of the standard is not expected to have material effect on the financial statements of the Teleset Group.

##### *IFRS 7: Financial Instruments: Disclosures*

This standard is applied for periods beginning on or after 1st of January 2007. The Teleset Group intends to apply the standard from 1 January 2007. This standard replaces IAS30: Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the requirements for disclosure of IAS32: Financial Instruments: Disclosure and Presentation. The application of the standard is not expected to have material effect on the financial statements of the Teleset Group.

#### 4.4.3 Property, plant and equipment and depreciation

Property, plant and equipment is shown at cost or valuation less accumulated depreciation and any accumulated impairment as set out in note 4.9. The cost of property, plant and equipment comprises the purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the property, plant and equipment to the working position for its intended use. The cost of internally constructed property, plant and equipment includes all direct costs such as materials and labour costs.

Depreciation is provided on all property, plant and equipment, except land. Depreciation is calculated on a monthly basis, beginning in the month following the month of acquiring the property, plant and equipment up until the month of disposing of property, plant and equipment inclusive, to write off the cost or valuation over their estimated useful economic lives as follows:

	%
Improvements on leasehold buildings	3
Switching, transmission and power equipment	10
Telecommunications equipment	6.7
Testing equipment	12.5
Line network	10
Motor vehicles	20
Office furniture and equipment	10
Computers	33.3
Tools	33.3

On disposal of an item of property, plant and equipment the difference between its carrying amount and the proceeds from disposal of the property, plant and equipment is credited or debited to the income statement for the year.

**4.4.4 Intangible assets and amortisation**

Intangible assets comprise of computer software. They are shown at cost less accumulated depreciation and any accumulated impairment as set out in note 4.10. Amortisation is calculated on a straight line basis over 10 years.

**4.4.5 Interest bearing borrowings**

The loan from BSTDB is stated at nominal value and does not include accrued interest.

The loan from TeleDev East Limited is stated at nominal value and includes accrued interest where applicable.

**4.4.6 Loans to related companies**

Loans to related companies are stated at nominal value and include accrued interest where applicable.

**4.4.7 Inventories**

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the goods to their present location and condition. The cost of purchase of goods comprises the purchase price, import duties, transport and other costs directly attributable to the acquisition. Spare parts and consumables are stated at cost less provision for reduction in their value due to obsolescence. The weighted average cost method is used for the determination of the cost of goods.

**4.4.8 Debtors**

Debtors are stated in the financial statements net of specific provisions for doubtful debts. Provision for doubtful debts is made only in respect of specific debts which have been outstanding for three years, the recoverability of which is considered doubtful.

**4.4.9 Impairment of assets**

The carrying amounts of the Teleset Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in the value of the assets. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its net selling price in an arm's length transaction and the present value of the estimated future cash flows from the continued use of the asset and its sale at the end of its useful life. When the recoverable amount of an asset is less than its carrying amount, this decrease is recognised as an expense in the income statement of the year.

In the event that in future accounting periods the amount of impairment decreases due to events occurring after the impairment is recognised, the proportionate amount is reversed through the income statement.

**4.4.10 Repairs and maintenance costs**

Expenditure on repairs and maintenance of property, plant and equipment made in order to restore or maintain future economic benefits of assets is recognised as an expense when incurred.

**4.4.11 Recognition of revenue**

Revenue from connection fees is recognised when all significant risks and rewards of ownership are transferred to the subscriber, that is when the connection is completed.

Rental fees, traffic and other revenue, interest receivable and other income are recognised on the accruals basis.

**4.4.12 Employees' benefits schemes**

The Teleset Group contributes to the state pension fund, which is compulsory. This is considered as a defined contribution scheme as the Teleset Group contributes a specific percentage on the gross salary of employees. The contributions of the Teleset Group are debited to the income statement of the year during which they become payable.

#### 4.4.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at bank, and short-term investments, the maturity date of which does not exceed three months from the date of acquisition.

#### 4.4.14 Financial instruments

The main financial assets of the Teleset Group are loans to related companies, amounts due by related companies, trade and other receivables and cash and equivalents. The main financial liabilities of the Teleset Group are loan from BSTDB, loan from holding company, amounts due to related companies and trade and other payable.

##### (1) *Financial risk factors*

The Teleset Group is exposed by its operations to financial risks, including effects from changes in foreign currency rates and interest rates. The Teleset Group has a risk management programme which aims to reduce the impact of negative effects on the economic returns of the Teleset Group. The Board of Directors determines the general principles of risk management, as well as policies relating to specific issues, such as foreign currency risk, interest rate risk, credit risk and liquidity risk. The risk management policies applied by the Teleset Group to manage these risks are discussed below:

##### (a) *Currency risk*

Currency risk is the risk that the value of financial instruments might fluctuate due to changes in foreign exchange rates. The Teleset Group's principal operating cash flows (revenues, production costs and operating expenses) are generated from operations in Russia whereas it has significant outflows for repayment of short-term loans denominated in United States Dollars. As a result, movements in the exchange rate between the Ruble and United States Dollar affect the carrying value of the Teleset Group's monetary assets and liabilities. Such changes may also affect the Teleset Group's ability to realise non-monetary assets in Russia as represented in terms of United States Dollars in these financial statements.

##### (b) *Interest rate risk*

Interest rate risk results from changes in market interest rates. The Teleset Group's income and operating cash flows are not directly related to changes in market interest rates. The Teleset Group borrows at floating rates. The Teleset Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. Interest rates and repayment terms for loans and amounts due with related companies are shown in note 4.12. Interest rates and repayment terms for loans with BSTDB is shown in note 4.17.

##### (c) *Credit risk*

Credit risk arises from the potential weakness of debtors to meet their obligation as they fall due. The Teleset Group has no significant concentration of credit risk as it has a wide customer base. The Teleset Group adopts policies to ensure that sales of products and services are made to customers with a good credit history, and adopts policies which restrict the exposure to credit risk attached to each customer.

##### (d) *Liquidity risk*

Liquidity risk refers to the possibility of the Teleset Group being unable to meet its cash obligations mainly in relation to the settlement of amounts due to related companies and suppliers and arises when the maturity dates of assets and liabilities do not match. The Teleset Group manages this risk by constant monitoring of the relation of current liabilities, cash and liquid assets.

##### (2) *Fair values*

Fair value represents the amount in which an asset can be exchanged for or a liability is settled at an arm's length transaction.

Fair values of the Teleset Group's financial assets and liabilities are approximately the same as the carrying amounts at the balance sheet date.

#### 4.4.15 Taxation

Corporation tax is provided for in accordance with the legislation and the tax rates applicable in Russia.

Deferred taxation is provided for, using the liability method on all temporary timing differences between the accounting value of assets and liabilities in the financial statements and their tax base.

Deferred taxation debit balances arising from deductible temporary differences are recognised only when it is probable that sufficient taxable profits will arise in the foreseeable future.

Deferred taxation is estimated based on the tax rates expected to be applicable in the period in which the asset will be recovered or the liability will be repaid. The effect on deferred taxation of any changes in the tax rates is presented in the income statement or in reserves, depending on where the original debit or credit for deferred taxation was recorded.

#### 4.5 Operating revenue

Operating revenue represents the amounts invoiced in respect of services rendered to customers during the period, stated net of value added tax and sales tax, and is analysed as follows:

	Year to 31 December 2003	Year to 31 December 2004	Year to 31 December 2005
	US\$	US\$	US\$
Connection fees	1,887,025	1,422,363	1,063,556
Rental fees	1,121,945	1,626,623	2,466,148
Traffic fees	1,099,754	1,503,571	1,881,368
ISDN – connection fee	419,601	197,007	132,083
ISDN – traffic fees	306,503	515,256	708,275
Internet services	583,897	1,138,976	1,788,717
IP Services	158,798	389,166	541,526
Universal cards	–	–	95,119
Sundry income	105,499	446,658	504,028
Other income from clients	–	–	247,866
	<u>5,683,022</u>	<u>7,239,620</u>	<u>9,428,686</u>

#### 4.6 Operating expenses

	Year to 31 December 2003	Year to 31 December 2004	Year to 31 December 2005
	US\$	US\$	US\$
Wages and salaries	641,700	845,457	996,314
Rental of equipment	–	141	–
Depreciation and writing-off of property, plant and equipment	1,715,098	1,804,442	1,983,512
Plant and machinery written off on purchase	64,496	93,634	113,638
Leased circuit rental and telecom expenses	440,232	800,528	971,143
Rent and lease payable	98,258	130,303	139,838
Sundry taxes	225,012	367,078	401,851
Advertising, promotion and marketing	98,021	170,345	181,834
Maintenance and repairs	117,474	259,366	259,120
Other expenses	318,250	559,902	717,946
	<u>3,718,541</u>	<u>5,031,196</u>	<u>5,765,196</u>

4.7 *Net financing costs*

	Year to 31 December 2003 US\$	Year to 31 December 2004 US\$	Year to 31 December 2005 US\$
<i>Financial income</i>			
Interest on loans receivable	59,568	74,172	544,983
Foreign exchange gain	156,094	195,799	62,363
	<u>215,662</u>	<u>269,971</u>	<u>607,346</u>
<i>Financial expenses</i>			
Interest payable	–	–	–
Interest on loans from related company	57,567	550,785	121,052
Interest on loan from BSTDB	–	37,093	640,605
Foreign exchange loss	68,963	101,677	150,605
Bank charges	20,060	53,311	34,253
	<u>146,590</u>	<u>742,866</u>	<u>946,515</u>
Net financing costs	<u>69,072</u>	<u>(472,895)</u>	<u>(339,169)</u>

4.8 *Taxation*

	Year to 31 December 2003 US\$	Year to 31 December 2004 US\$	Year to 31 December 2005 US\$
Deferred taxation (Note 4.18)	513,461	233,729	86,875
Taxation charge for the year	664,383	513,193	803,539
	<u>1,177,844</u>	<u>746,922</u>	<u>890,414</u>

Taxation charge for the year is in respect of Russian Federation Tax. It is computed at the appropriate rate on the chargeable profits for the year.

Each company in the Russian Federation is liable to taxation on profits at the rate of 6.5 per cent (for Russian Federation purposes) and to taxes of the local authorities (for the Teleset Group, the Tatarstan Region). The Tatarstan Region for the year ended 31 December 2005 charges tax on profits at the rate of 17.5 per cent.

## 4.9 Property plant and equipment

	Improvements to leasehold buildings US\$	Telecom plant and equipment US\$	Motor vehicles and tools US\$	Office furniture & equipment US\$	Computer hardware US\$	Total US\$
<b>Cost</b>						
As at 1 January 2003	2,317,685	18,075,096	364,906	231,580	698,026	21,687,293
Additions	18,375	1,743,900	34,896	6,928	50,068	1,854,167
Disposals	(12,787)	(43,178)	(74,899)	(2,081)	(34,863)	(167,808)
Transfers	(179)	179	–	–	–	–
As at 31 December 2003	2,323,094	19,775,997	324,903	236,427	713,231	23,373,652
Additions	91,253	1,826,465	15,826	14,463	78,258	2,026,265
Disposals	(6,582)	(87,677)	(5,929)	(5,505)	(12,495)	(118,188)
Transfers	–	(1,809)	–	2,584	(775)	–
As at 31 December 2004	2,407,765	21,512,976	334,800	247,969	778,219	25,281,729
Additions	35,839	1,920,997	116,597	49,885	211,677	2,334,995
Disposals	–	(48,944)	(47,494)	(9,781)	(68,759)	(174,978)
Transfers	(73)	(2,052)	–	2,125	–	–
As at 31 December 2005	2,443,531	23,382,977	403,903	290,198	921,137	27,441,746
<b>Depreciation</b>						
As at 1 January 2003	191,332	4,460,933	259,302	88,064	489,122	5,488,753
Charge	67,061	1,452,141	55,595	27,260	113,041	1,715,098
Disposals	–	(10,749)	(66,807)	–	(89)	(77,645)
As at 31 December 2003	258,393	5,902,325	248,090	115,324	602,074	7,126,206
Charge	68,149	1,591,404	33,677	28,591	82,621	1,804,442
Disposals	(128)	–	(5,667)	–	(2,298)	(8,093)
As at 31 December 2004	326,414	7,493,729	276,100	143,915	682,397	8,922,555
Charge	70,121	1,765,408	35,459	30,176	82,348	1,983,512
Disposals	–	(74,005)	(43,353)	–	–	(117,358)
As at 31 December 2005	396,535	9,185,132	268,206	174,091	764,745	10,788,709
<b>Net book value</b>						
As at 31 December 2003	2,064,701	13,873,672	76,813	121,103	111,157	16,247,446
As at 31 December 2004	2,081,351	14,019,247	58,700	104,054	95,822	16,359,174
As at 31 December 2005	2,046,996	14,197,845	135,697	116,107	156,392	16,653,037

4.10 *Intangible assets*

	<b>Computer Software US\$</b>
<b>Cost</b>	
As at 1 January 2003	236,294
Additions	1,081
Disposals	–
As at 31 December 2003	<u>237,375</u>
Additions	–
Disposals	(22,410)
Adjustment	(34,720)
As at 31 December 2004	<u>180,245</u>
Additions	–
Disposals	(78,345)
As at 31 December 2005	<u>101,900</u>
<b>Depreciation</b>	
As at 1 January 2003	60,999
Charge	22,412
Disposals	–
As at 31 December 2003	<u>83,411</u>
Charge	102
Disposals	–
Adjustment	(34,720)
As at 31 December 2004	<u>48,793</u>
Charge	29,770
Disposal	(78,345)
As at 31 December 2005	<u>218</u>
<b>Net book value</b>	
As at 31 December 2003	<u>153,964</u>
As at 31 December 2004	<u>131,452</u>
As at 31 December 2005	<u>101,682</u>

The adjustment was required in respect of bringing the groups intangible fixed assets in line with International Financial Reporting Standards.

4.11 *Inventories*

	<b>2003 US\$</b>	<b>2004 US\$</b>	<b>2005 US\$</b>
Materials	514,824	623,433	549,253
Cards	–	–	707
Spare parts	74,443	134,864	323,308
	<u>589,267</u>	<u>758,297</u>	<u>873,268</u>

4.12 *Related party transactions**Income statement*

The Teleset Group, in the normal course of business, buys from and sells to entities which fall within the definition of related party contained in the International Financial Reporting Standard 24. The directors believe that the terms of such transactions are not significantly different from those that could have been obtained from third parties. During the year the Teleset Group has provided services to and has been provided services from:

	<b>2003</b> US\$	<b>2004</b> US\$	<b>2005</b> US\$
<i>Operating expenses incurred</i>			
Stelcom Limited	341,468	974,021	1,071,691
	<u>341,468</u>	<u>974,021</u>	<u>1,071,691</u>
<i>Financial income</i>			
TeleDev East Limited	–	–	1,683
ZAO Items+	16	127	136
Stelcom Limited	1,268	163	35,153
	<u>1,284</u>	<u>290</u>	<u>36,972</u>
<i>Financial expenses</i>			
TeleDev East Limited	57,294	450,784	121,052
	<u>57,294</u>	<u>450,784</u>	<u>121,052</u>

**Balance Sheet**

<i>Amounts due by related companies</i>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Stelcom Limited	8,912	39,662	4,599
TeleDev East Limited	10,000	10,000	10,000
	<u>18,912</u>	<u>49,662</u>	<u>14,599</u>
<i>Amounts due to related companies</i>			
Stelcom Limited	63,717	145,616	133,774
TeleDev East Limited	18,540	18,540	18,540
	<u>82,257</u>	<u>164,156</u>	<u>152,314</u>
Loans from TeleDev East Limited	4,643,776	3,594,490	1,002,000

The above analysis excludes a loan of US\$8,398,000 advanced by Teleset Limited to TeleDev East Limited which has been offset against a corresponding loan advanced by TeleDev East Limited to Teleset Invest Limited.

On 31 October 2005 Teleset entered into a guarantee in respect of the obligations of Stelcom Limited to Uniastrum Bank LLC under which Teleset is liable for the sum of \$300,000.

4.13 *Trade and other receivables*

	<b>2003</b> US\$	<b>2004</b> US\$	<b>2005</b> US\$
Trade debtors	1,057,075	1,367,632	1,402,909
Value added tax recoverable	684,585	1,064,665	749,017
Prepayments for property, plant and equipment	21,700	126,627	10,846
Other debtors and prepayments	197,293	143,902	277,656
Other taxes paid in advance	13,452	30,469	138,321
	<u>1,974,105</u>	<u>2,733,295</u>	<u>2,578,749</u>

4.14 *Cash and cash equivalents*

	<b>2003</b>	<b>2004</b>	<b>2005</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cash equivalents	101,857	6,035,560	9,373,339
Cash at bank and in hand	480,684	183,234	347,257
	<u>582,541</u>	<u>6,218,794</u>	<u>9,720,596</u>

The fixed deposit represents a two months fixed deposit, denominated in US Dollars in OOO Uniastrum Bank. The interest rate paid on this deposit ranges from 5.5 per cent to 8 per cent.. The Teleset Group engaged in this deposit in 2004. Approximately 98 per cent of money held is on deposit attracting an interest rate of 8 per cent.

4.15 *Share capital*

The movement in share capital during the period is as follows:

	<b>Share capital</b>
	<b>US\$</b>
At 1 January 2003	13,493,609
Issued in period	807,670
At 31 December 2003	<u>14,301,279</u>
Issued in period	566,045
At 31 December 2004	<u>14,867,324</u>
Issued in period	549,609
At 31 December 2005	<u>15,416,933</u>

The US\$15,416,933 share capital at 31 December 2005 comprises US\$4,439,512 in Teleset Limited and US\$10,977,429 in Teleset Invest Limited. TeleDev East Limited is the sole participant of Teleset Limited and Teleset Invest Limited.

4.16 *Retained earnings*

	<b>US\$</b>
Balance 1 January 2003	(1,914,412)
Dividends paid	–
Profit for the year	1,006,221
Balance 31 December 2003	<u>(908,191)</u>
Dividends paid	(573,684)
Profit for the year	1,084,930
Balance 31 December 2004	<u>(396,945)</u>
Dividends paid	(52,631)
Profit for the year	2,453,399
Balance 31 December 2005	<u>2,003,823</u>

4.17 *Loan from BSTDB*

On 26 October 2004, the Teleset Group entered into a loan agreement with Black Sea Trade and Development Bank (BSTDB) for the amount of US\$ 10,000,000 of which US\$6,000,000 was drawn down in the year to 31 December 2004. By 31 December 2005 the Teleset Group had drawn down the full US\$ 10,000,000.

The annual interest rate is the 4 per cent margin plus LIBOR and the repayment will commence 24 months from the date of the agreement, in 20 equal quarterly instalments.

4.18 *Deferred tax liabilities*

	<b>Temporary differences between depreciation and capital allowances US\$</b>
At 1 January 2003	–
Debit in income statement for current year deferred tax	513,461
At 31 December 2003	<u>513,461</u>
Debit in income statement for current year deferred tax	233,729
At 31 December 2004	<u>747,190</u>
Debit in income statement for current year deferred tax	86,875
At 31 December 2005	<u>834,065</u>

4.19 *Trade and other payables*

	<b>2003 US\$</b>	<b>2004 US\$</b>	<b>2005 US\$</b>
Creditors for fixed assets	64,420	121,445	116,429
Sundry taxes	840,506	933,058	726,210
Other creditors including employees	141,801	388,070	470,511
	<u>1,046,727</u>	<u>1,442,573</u>	<u>1,313,150</u>

4.20 *Advances from customers*

	<b>2003 US\$</b>	<b>2004 US\$</b>	<b>2005 US\$</b>
Advances – Residential	49,872	71,773	58,297
Advances – Business	29,724	45,128	90,375
Settlements with clients for constructions	–	57,048	200,739
Other advances	–	10,451	–
	<u>79,596</u>	<u>184,400</u>	<u>349,411</u>

4.21 *Employees contribution schemes*

The Teleset Group contributions to the state pension fund for the year were:

	<b>US\$</b>
2003	<u>141,541</u>
2004	<u>179,193</u>
2005	<u>161,954</u>

4.22 *Commitments and contingencies*

The companies comprising the Teleset Group are incorporated in the Russian Federation. Several transactions of the Teleset Group are carried out in the Russian Federation.

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- a currency that is not freely convertible outside of the country;
- extensive currency controls; and
- a low level of liquidity in the public and private debt and equity markets; and high inflation.

The prospects of future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments.

***Taxation***

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and if often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in the Russian Federation, which could be substantially more significant than in other countries. Management believes that it has adequately provided for all tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

***Legal and Compliance***

Management is not aware of any actual, pending or threatened claims against the Teleset Group.

***Capital Expenditure Commitments***

As at 31 December 2005 the Teleset Group had no capital expenditure commitments.

4.23 *Post balance sheet event*

On 9 February 2006 Teleset Invest entered into a guarantee in respect of the obligation of Stelcom Limited to Uniastrum Bank LLC under which Teleset Invest is liable to the sum of 30,000,000 RUR plus interest, commission and penalties. Further details are set out in paragraph 17.1 of Part VI of this document.

On 30 March 2006 Teleset entered into a guarantee in respect of the obligations of Stelcom Limited to Promsvyazlizing LLC under which Teleset Invest is liable for the sum of \$525,498. Further details are set out in paragraph 17.3 of Part VI of this document.

During September 2006 the ownership of Teleset Limited and Teleset Invest Limited was transferred to Teleset Networks Public Company Limited.

**PART V(b)****FINANCIAL INFORMATION**

**UNAUDITED INTERIM FINANCIAL INFORMATION  
ON THE SUBSIDIARIES  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

**Basis of Information**

The financial information on the Teleset Group set out below has been extracted without material adjustment from the interim results of the Teleset Group for the six months ended 30 June 2006. All information presented is unaudited. The interim accounts do not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

**Teleset Group**

Six months ended 30 June 2006

**Consolidated Income Statement**

	(unaudited) 6 months ended 30 June 2006 US\$'000	(unaudited) 6 months ended 30 June 2005 US\$'000	(audited) Year ended 31 December 2005 US\$'000
Operating revenue	5,798	4,512	9,429
Operating expenses	(3,324)	(2,674)	(5,765)
<b>Profit from operations</b>	<u>2,473</u>	<u>1,838</u>	<u>3,663</u>
Other operating income/(expenses)	173	(5)	19
<b>Operating profit before financing costs</b>	<u>2,646</u>	<u>1,833</u>	<u>3,682</u>
Finance income	515	216	607
Finance expenses	(462)	(437)	(947)
Net financing result	<u>53</u>	<u>(221)</u>	<u>(339)</u>
<b>Profit before taxation</b>	<u>2,699</u>	<u>1,613</u>	<u>3,344</u>
Taxation	(620)	(385)	(890)
<b>Net profit after taxation</b>	<u>2,079</u>	<u>1,228</u>	<u>2,453</u>
Dividends	(793)	(53)	(53)
<b>Retained profit for the period</b>	<u>1,286</u>	<u>1,175</u>	<u>2,395</u>

**Teleset Group**

Six months ended 30 June 2006

**Statement of Changes in Equity**

	(unaudited) 6 months ended 30 June 2006 US\$'000	(unaudited) 6 months ended 30 June 2005 US\$'000	(audited) Year ended 31 December 2005 US\$'000
<b>Opening balance</b>			
Share capital	15,417	14,867	14,867
Retained earnings	2,004	(397)	(397)
Dividends paid	(793)	(53)	(53)
Issue of share capital	–	409	550
Income for the period	2,079	1,228	2,453
<b>Closing balance</b>	18,707	16,055	17,421
Share capital	15,417	15,276	15,417
<b>Retained earnings</b>	3,290	779	2,004

## Teleset Group

Six months ended 30 June 2006

## Consolidated Balance Sheet

	(unaudited) 6 months ended 30 June 2006 US\$'000	(unaudited) 6 months ended 30 June 2005 US\$'000	(audited) Year ended 31 December 2005 US\$'000
<b>ASSETS</b>			
<b>Non current assets</b>	16,795	16,309	16 755
<b>Current assets</b>			
Inventories	969	692	873
Trade and other receivables	3,240	3,042	2,579
Amount due by related and holding companies	1,830	968	1,315
Cash equivalent	8,306	8,655	9,373
Cash	572	296	347
<b>Total current assets</b>	14,917	13,652	14,487
<b>Total Assets</b>	31,712	29,962	31,242
<b>Equity</b>			
Share capital	15,417	15,276	15,417
Retained earnings	3,290	779	2,004
<b>Total equity</b>	18,707	16,055	17,421
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	1,647	1,424	1,314
Advances	199	165	349
Deferred taxation	835	747	834
Amount due to related and holding companies	135	179	152
Loans from BSTDB	1,000	–	–
Interests on loans from BSTDB	189	122	172
Loans from holding company	–	506	1,000
Interest on loans from holding company	–	764	–
<b>Total current liabilities</b>	4,005	3,907	3,821
<b>Non current liabilities</b>			
Loans from BSTDB	9,000	10,000	10,000
<b>Total liabilities</b>	13,005	13,907	13,821
<b>Total equity and liabilities</b>	31,712	29,962	31,242

**Teleset Group**

Six months ended 30 June 2006

**Consolidated Cash Flow Statement**

	(unaudited) 6 months ended 30 June 2006 US\$'000	(unaudited) 6 months ended 30 June 2005 US\$'000	(audited) Year ended 31 December 2005 US\$'000
<b>Cash flows from operating activities</b>			
Profit for the year before taxation	2,699	1,613	3,344
Adjustments for:			
Interest income	(371)	(216)	(545)
Interest expense	446	357	762
Depreciation of property, plant and equipment	986	970	1,984
Amortization of intangible assets	12	12	30
Loss on disposal of intangible assets	–	–	–
(Profit)/Loss on disposal of property, plant and equipment	(171)	2	1
<b>Operating profit before working capital changes</b>	<u>3,601</u>	<u>2,738</u>	<u>5,574</u>
(Increase)/decrease in inventories	(95)	66	(115)
(Increase)/decrease in trade and other receivables	(661)	(308)	155
(Increase)/decrease in amount due by related companies	(1)	35	35
Increase/(decrease) in trade and other payables	428	62	(124)
(Decrease)/increase in advances from customers	(150)	(20)	165
(Decrease)/increase in amounts due to related companies	(17)	15	(12)
<b>Cash generated from operations</b>	<u>3,105</u>	<u>2,588</u>	<u>5,678</u>
Interest paid	(428)	(157)	(1,275)
Interest received	371	217	545
Taxation paid	(620)	(385)	(804)
<b>Net cash from operations</b>	<u>2,427</u>	<u>2,263</u>	<u>4,144</u>
<b>Cash flows from investing activities</b>			
Loans to related companies	(514)	(564)	(911)
Acquisition of property, plant and equipment	(1,258)	(883)	(2,283)
Proceeds from the sale of property, plant and equipment	297	–	–
<b>Net cash from investing activities</b>	<u>(1,477)</u>	<u>(1,447)</u>	<u>(3,193)</u>
<b>Cash flows from financing activities</b>			
Issue of share capital	–	409	550
Proceeds from BSTDB loan	–	4,000	4,000
Loan from holding company	(1,000)	(2,440)	(1,946)
Dividend paid	(793)	(53)	(53)
<b>Net cash from financing activities</b>	<u>(1,793)</u>	<u>1,916</u>	<u>2,551</u>
Net (decrease)/increase in cash and cash equivalents	(843)	2,732	3,502
Cash and cash equivalents at the beginning of the year	9,721	6,219	6,218
<b>Cash and cash equivalents at the end of the year</b>	<u>8,878</u>	<u>8,951</u>	<u>9,721</u>

**Teleset Group**

Six months ended 30 June 2006

**Notes to the financial statements**1. *Basis of preparation – IFRS basis*

The results for the six months to 30 June 2006 have been prepared on the basis of the accounting policies set out in the 2005 annual reports of Teleset Limited and Teleset Invest Limited. The results for the six months to 30 June 2006 and 2005 are unaudited.

2. *Profit per ordinary share*

The basic profit per ordinary share has been calculated using the profit for the financial period of US\$.

3. *Non current assets*

US\$'000	Improvements on Leasehold Buildings	Telecommunication network and equipment	Motor vehicles and tools	Office furniture and equipments	Computer hardware and systems	Total
<b>At 1 January 2006</b>	2,444	23,383	404	290	921	27,442
(Disposal)	–	(127)	–	(2)	–	(129)
Additions	230	792	52	13	74	1,161
Transfer	–	346	–	(8)	(338)	–
<b>At 30 June 2006</b>	<u>2,674</u>	<u>24,394</u>	<u>456</u>	<u>293</u>	<u>657</u>	<u>28,474</u>
<b>Depreciation</b>						
At 1 January 2006	397	9,185	268	174	765	10,789
Change for the year (Disposal)	36	894	22	13	20	986
Transfer	–	(4)	–	–	–	(4)
Transfer	–	183	–	–	(182)	–
<b>At 30 June 2006</b>	<u>433</u>	<u>10,258</u>	<u>290</u>	<u>187</u>	<u>603</u>	<u>11,771</u>
<b>New Book Value</b>						
<b>At 30 June 2006</b>	<u>2,241</u>	<u>14,136</u>	<u>166</u>	<u>106</u>	<u>54</u>	<u>16,703</u>
At 1 January 2006	<u>2,047</u>	<u>14,198</u>	<u>136</u>	<u>116</u>	<u>156</u>	<u>16,653</u>
<b>US\$'000</b>	<b>Intangible assets</b>					
<b>At 1 January 2006</b>	102					
(Disposal)	–					
Additions	2					
Transfer	–					
<b>At 30 June 2006</b>	<u>104</u>					
<b>Depreciation</b>						
At 1 January 2006	–					
Change for the year (Disposal)	12					
Transfer	–					
<b>At 30 June 2006</b>	<u>12</u>					
<b>New Book Value</b>						
<b>At 30 June 2006</b>	<u>92</u>					
At 1 January 2006	<u>102</u>					

4. *Share capital*

	(unaudited) 6 months ended 30 June 2006 US\$'000	(unaudited) 6 months ended 30 June 2005 US\$'000	(audited) Year ended 31 December 2005 US\$'000
Teleset Invest Limited	10,977	10,844	10,977
Teleset Limited	4,440	4,432	4,440
Combined	<u>15,417</u>	<u>15,276</u>	<u>15,417</u>

The share capital of each company is held as one participatory share with a nominal value equal to the amount stated in this table.

5. *Retained earnings*

Movements in the profit and loss account during the period were as follows:

	Retained earnings US\$'000
At 1 January 2006	2,004
Dividends paid	(793)
Retained profit for the year	<u>2,079</u>
<b>At 30 June 2006</b>	<u><b>3,290</b></u>

## PART VI

### ADDITIONAL INFORMATION

#### 1. Responsibility

The Company and the Directors and Proposed Director accept individual and collective responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors and Proposed Director (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omissions likely to affect the import of such information.

#### 2. The Company

- 2.1 The Company was incorporated as a limited liability company limited by shares and registered in Cyprus on 19 June 2006 under the name Teleset Networks Public Company Limited with an authorised share capital of 25,000 CYP divided into 25,000 shares of CYP 1 of which 21,904 shares of CYP 1 have been issued and fully paid up.
- 2.2 The Company was incorporated under the Cyprus Company Law and accordingly the Cyprus Company Law is applicable to the Company.
- 2.3 The Company's registered number is HE178378 and its registered office and principal place of business is at 89 Lemesou, 2121, Aglantzia, Nicosia, Cyprus. The telephone number of the registered office is: +35722450790.
- 2.4 The liability of a Shareholder is limited to payment of the amount unpaid on each Ordinary Share held by him. Under the Cyprus Company Law, a Shareholder is not personally liable for the acts of the Company, save that a Shareholder may become personally liable by reason of his or her own acts.
- 2.5 The Company has two wholly owned subsidiaries: Teleset LLC, incorporated in the Russian Federation on 26 September 1996 with company number 1021603270259 and Teleset Invest, incorporated in the Russian Federation on 8 September 1998 with company number 1021603277354.

#### 3. Share capital of the Company and Directors' and Proposed Director's interests

- 3.1 By Shareholders' resolutions passed on 11 September 2006 it was resolved:
  - 3.1.1 that the entire issued ordinary share capital of the Company be admitted to AIM and the Directors and Proposed Director be authorised to apply for Admission and take any measures or do any act necessary to implement Admission;
  - 3.1.2 that:
    - (a) each existing issued and unissued Ordinary Share of 1 CYP each be divided into 100 Ordinary Shares of CYP 0.01 nominal value each so that the authorised capital is amended from CYP 25,000 divided into 25,000 Ordinary Shares of CYP 1.00 each to CYP 25,000 divided into 2,500,000 Ordinary Shares of CYP 0.01 each;
    - (b) the authorised share capital of the Company be increased from CYP 25,000 divided into 2,500,000 Ordinary Shares of CYP 0.01 to CYP 1,125,000 divided into 112,500,000 Ordinary Shares of CYP 0.01 each by the creation of a further 110,000,000 Ordinary Shares of CYP 0.01 each, ranking *pari passu* with the existing Ordinary Shares of CYP 0.01 each in the capital of the Company;
    - (c) conditional upon Admission, each issued and unissued Ordinary Share has the rights set out in the new articles of association;
    - (d) an additional 100,000,610 Ordinary Shares of nominal value of CYP 0.01 be allotted to the existing shareholders in Teleset and Teleset Invest at a premium of CYP 0.14728 and paid for by a capital contribution in kind to the Company of their total holdings in Teleset and Teleset Invest as sanctioned by the written resolution of the Company of 19 June 2006 for the total amount of CYP 15,728,096 resulting in a total nominal issued share capital of the Company at that time of CYP 1,021,910 divided into 102,191,010 Ordinary Shares of CYP 0.01 each;

- (e) conditional upon Admission, the Directors and Proposed Director be generally and unconditionally authorised in accordance with the Cyprus Company Law, to exercise all the powers of the Company to allot shares up to a maximum nominal amount of the unissued authorised capital of the Company to such persons and at such times and on such terms as they think proper, and this authority to be in substitution for all authorities conferred upon the directors by virtue of resolutions passed prior to the date of the passing of this resolution to the extent that the same shall not have utilised by such date. The authority conferred by this resolution shall be for a period expiring on the termination of the first annual general meeting of the Company except that the Company may before the end of such period make any offer or agreement which would or might require shares to be allotted after such period, and the Directors and Proposed Director may allot shares in pursuance of any such offer or agreement as if the power conferred by the resolution had not expired;
- (f) that, conditional upon Admission, the Directors and Proposed Director be empowered under Articles 60B(5) and 59A of the Cyprus Company Law to allot shares for cash pursuant to the authority conferred on them by paragraph (e) of the resolution as if Article 60B(1) of the Cyprus Company Law did not apply to that allotment; and
- (g) that, conditional upon Admission, the Share Option Plan on the terms contained in the rules of the share option scheme in the form produced at the meeting and initialled by the Chairman for the purposes of identification be adopted as the share option scheme of the Company.

3.1.3 that, conditional on Admission, the Company adopt new articles of association in the form produced at the meeting and initialled by the Chairman for the purposes of identification.

3.2 3.2.1 At the date of this document, the authorised and issued share capital of the Company is as follows:

Class of shares	Authorised		Issued and fully paid	
	Number	Amount (CYP)	Number	Amount (CYP)
Ordinary	112,500,000	1,125,000	102,191,010	1,021,910

3.2.2 The authorised and issued share capital of the Company on Admission will be:

Class of shares	Authorised		Issued and fully paid	
	Number	Amount (CYP)	Number	Amount (CYP)
Ordinary	112,500,000	1,125,000	102,386,610	1,023,866

3.2.3 The authorised but unissued share capital of the Company immediately following Admission will be CYP 10,113,390 representing approximately 8.9 per cent of the authorised share capital.

3.3 At the date of this document and immediately following Admission, so far as the Directors and Proposed Director are aware, the only persons (other than Directors and Proposed Director and their immediate family) who are or will be, directly or indirectly, interested in 3 per cent or more of the issued share capital of the Company are as follows:

Name	At the date of this document		
	Class of shares	Number	Percentage of issued share capital
Manglis Holdings Limited	Ordinary	31,029,602	30.4
F&S Telecom Limited	Ordinary	23,662,929	23.2
Celltech Limited	Ordinary	15,148,567	14.8
TeleDev East	Ordinary	14,938,624	14.6
Court Holdings Limited	Ordinary	3,699,665	3.6
P M Tseriotis Limited	Ordinary	3,620,354	3.5
Alco Products Limited	Ordinary	3,480,391	3.4

Name	Class of shares	Immediately following Admission	
		Number	Percentage of issued share capital
Manglis Holdings Limited	Ordinary	31,029,602	30.3
F&S Telecom Limited	Ordinary	23,662,929	23.1
Celltech Limited	Ordinary	15,148,567	14.8
TeleDev East	Ordinary	14,938,624	14.6
Court Holdings Limited	Ordinary	3,699,665	3.6
P M Tseriotis Limited	Ordinary	3,620,354	3.5
Alco Products Limited	Ordinary	3,480,391	3.4

The Company has allotted the Market Maker Shares, representing 0.19 per cent of the issued share capital at the date of this document, to the market makers conditional upon Admission.

- 3.4 The interests (all of which are beneficial unless stated otherwise) of the Directors and Proposed Director and (so far as is known to the Directors and Proposed Director or could with reasonable diligence be ascertained by them) the persons connected with them (within the meaning of section 346 of the Act) in the issued share capital of the Company as at the date of this document and as they are expected to be immediately following Admission are as follows:

Director	At the date of this document			Immediately following Admission		
	Number of Ordinary Shares	% of issued share capital	Options	Number of Ordinary Shares	% of issued share capital	Options
Lidana Bondar	NIL	NIL	1,021,910*	NIL	NIL	1,021,910*
Roman Shaykhutdinov	NIL	NIL	1,532,865*	NIL	NIL	1,532,865*
Yiannis Demetriou	NIL	NIL	2,554,775*	NIL	NIL	2,554,775*
Phillippos Vatyliotis	1,433,537	1.4	NIL	1,433,537	1.4	NIL
Ioannis Tirkides	NIL	NIL	NIL	NIL	NIL	NIL
Frank Lewis	NIL	NIL	NIL	NIL	NIL	NIL

\* Exercise price at CYP 16.2 pence per Ordinary Share.

- 3.5 Save as disclosed in paragraph 3.5, the Directors and Proposed Director are not aware of any person who, directly or indirectly, is or will be, immediately following Admission interested in 3 per cent or more of the Company's issued share capital.
- 3.6 Save as disclosed in paragraph 3.5, the Directors and Proposed Director are not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- 3.7 No Shareholder has different voting rights with respect to the Ordinary Shares and each of the Ordinary Shares rank *pari passu* in all respects.
- 3.8 The Directors and Proposed Director are not aware of any arrangements, the operation of which may, at a subsequent date, result in a change in the Company.
- 3.9 Save as disclosed in paragraph 3.3, and other than pursuant to the issue of the Market Maker Shares, since incorporation of the Company, no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued fully or partly paid, for cash or any other consideration or has been purchased by the Company.
- 3.10 Save as disclosed in paragraphs 3.6 and 4.3, no share or loan capital of the Company is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 3.11 Save as set out in paragraph 3.6, as at the date of this document and immediately following Admission, none of the Directors nor the Proposed Director nor any persons connected with any of the Directors and Proposed Director have or are expected to have any interest, beneficial or non-beneficial, in the share or loan capital of the Company.
- 3.12 None of the Directors nor the Proposed Director has any interest, direct or indirect, in any assets which have been or are proposed to be acquired or disposed of by, or leased to, the Company and no contract or arrangement exists in which a Director or the Proposed Director is materially interested and which is significant in relation to the business of the Group.
- 3.13 There are no outstanding loans granted by the Company to any of the Directors or the Proposed Director, nor are there any guarantees provided by the Company for their benefit.

- 3.14 None of the Directors and Proposed Director, nor any members of their respective families, has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.
- 3.15 There are no Ordinary Shares in the Company not representing capital and there are no shares in the Company held by its Subsidiaries.
- 3.16 Ordinary Shares are in registered form.

#### **4. Share Option Plan**

##### *4.1 Purposes*

The purposes of the Share Option Plan are to reward existing management for the progress of the businesses of Teleset and Teleset Invest and on an ongoing basis to attract and retain personnel and provide additional incentives to employees and directors of the Company and the Subsidiaries.

##### *4.2 Administration*

The Board shall determine whether awards will be made under the Share Option Plan and if so the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used. The Board shall determine the awards to be made to other employees.

##### *4.3 Option Pool*

The Company has reserved 10,219,100 Ordinary Shares for allocation under the Share Option Plan (representing approximately 10 per cent of the issued share capital immediately following Admission) of which, as of Admission 5,109,550 are subject to options already granted under the Share Option Plan (representing approximately 5 per cent of the issued share capital immediately following Admission).

##### *4.4 Eligible Persons*

Lidana Bondar, Yiannis Demetriou and Roman Shaykhtudinov and such other individuals as the Board may in its absolute discretion determine.

##### *4.5 Grant*

Under the terms of the Share Option Plan the Company may in its absolute discretion grant options to individuals within 42 days of the publication of the Company's annual results by the Company and the individual entering into an option agreement. The Company has however agreed with Corporate Synergy and Metropol that unless it has their respective prior consents, it will only grant new options after the date of this document on terms that are in accordance with ABI guidelines.

##### *4.6 Exercise*

The options which have already been granted may be exercised immediately upon grant. The period during which future options must be exercised following grant and other terms will be the subject of discussion between the Company, Corporate Synergy and Metropol.

##### *4.7 Lapse*

To the extent not already exercised, options shall lapse after the earlier of (a) the tenth anniversary of the date of grant and (b) a substantial change of ownership (as defined in the Share Option Scheme) or sale of the Company, or the passing of a resolution or making of a court order winding up the Company.

##### *4.8 Adjustments*

In the event of any change to the share capital of the Company, the price, nominal value and number of shares subject to the option may be adjusted as the Board may determine provided that the option price shall not be lower than the nominal value unless the Board capitalises the difference.

##### *4.9 Transferability*

Options shall be capable of transfer, assignment or other disposal.

#### **5. Memorandum of Association**

The objects of the Company which are found in the articles of the Memorandum of Association of the Company, are:

- 5.1 the provision of services and general trading in the field of telecommunications, particularly in relation to telephone networks, systems, stations or other telecommunication installations of any kind;
- 5.2 to consult, research or operate as business consultants or market research consultants or agents;
- 5.3 to invest or to operate as an investment company;

- 5.4 to own land, immovable property and buildings;
- 5.5 to develop, improve, exploit and manage immovable property; and
- 5.6 to carry on the business of an investment holding company and for that purpose to acquire and to hold as an investment, immovable property, shares, stock, debentures, debenture stock, bonds, notes, obligations and securities issued or not or guaranteed or not by any government or public body or public authority worldwide, or by original subscription, contract, tender, purchase, exchange or otherwise; to subscribe for the same subject to such terms and conditions as may be thought fit; and to exercise and enforce all rights and powers conferred by or incidental to the ownership of all the above.

## **6. Articles of Association and applicable law in Cyprus**

The following is a brief summary of certain material provisions of the Articles of Association of the Company which were adopted by the Company on 11 September 2006, conditional on Admission. This summary should not be regarded as comprehensive.

### **6.1 Directors**

- 6.1.1 The management of business and the conduct of the affairs of the Company is vested in the directors of the Company. There shall be a minimum of three directors and there shall be no maximum number of directors. The Company may by ordinary resolution increase or decrease the number of directors from time to time. An alternate director is not counted in determining the number of directors.
- 6.1.2 At the first annual general meeting of the Company as a public entity, all the directors will offer themselves for re-election.
- 6.1.3 Each director may nominate another director or any other person to act as his alternate director. An alternate director is subject to the same regulations as the other directors, and is entitled to vote at any meeting at which his appointor is not present. An alternate director is counted in the quorum. An alternate director may be removed at any time by his appointor.
- 6.1.4 The directors have the power at any time to appoint any individual to be a director so as to fill a vacancy or to add to the existing directors up to the maximum number of directors then allowed. At any time, the Company at a general meeting may (without prejudice to the above powers of the directors) appoint any person as a director and determine the period for which such person is to hold office by resolution. In addition, the Company may by ordinary resolution of which special notice has been given (28 days) remove a director. Any such Director will receive special notice of the meeting and is entitled to be heard at the meeting.
- 6.1.5 The remuneration of the directors will from time to time be determined by the Company on the recommendation of the remuneration committee. Any director performing special or extraordinary services in the conduct of the Company's business or in discharge of his duties as director, or who travels or resides abroad in discharge of his duties as director, may be paid such extra remuneration as determined by the directors. In addition, directors are paid their travelling, hotel and incidental expenses properly incurred in the conduct of the Company's business or in the discharge of their duties as directors.
- 6.1.6 The shareholding qualification for directors may be fixed by the Company at a general meeting and unless and until so fixed no qualification shall be required.
- 6.1.7 A director of the Company may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested as a member or otherwise, and no such director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company unless the Company otherwise directs.
- 6.1.8 The directors may meet for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit and questions arising at any meeting will be decided by a simple majority of votes of all of the directors whether voting or not.
- 6.1.9 The quorum necessary for the directors to transact business is a simple majority of directors present in person or through their alternates. If within half an hour from the time appointed for the meeting a quorum is not present, it shall stand adjourned to the same day in the next week at the same time and place or to such other day and at such other time and place as the directors may determine, which, however, shall not be later than 10 days after the original meeting.

6.1.10 The directors may delegate any of their powers to committees consisting of such members of their body as they think fit. Any committee so formed will in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the directors. Without limitation to the generality of the foregoing, the following committees of directors shall be formed:

6.1.10.1 An audit committee shall be constituted, the initial members of which shall consist of three directors. In the event that the Board shall designate any independent non-executive directors, then at least one member of the audit committee will be an independent non-executive director. This committee will be responsible for, among others, the review of the Company's financial statements, accounting policies, internal controls and overseeing its relationship with its external auditors;

6.1.10.2 A remuneration committee shall be constituted, the initial members of which shall comprise of three directors. In the event that the Board shall designate any independent non-executive directors, then at least one member of the remuneration committee will be an independent non-executive director. This committee will be responsible for, among others, determining the Company's policy on remuneration; however, no director or manager shall be directly involved in any decision as to their own remuneration; and

6.1.10.3 A nomination committee shall be constituted, the initial members of which shall comprise three directors. In the event that the Board shall designate any independent non-executive directors, then at least one member of the nomination committee will be an independent non-executive director. This committee will be responsible for, among others, reviewing the composition of the Board and making recommendations to the Board with regard to any changes.

## 6.2 *Notices*

6.2.1 A notice may be given by the Company to any member either personally or by sending it by post, email or facsimile to him or to his registered address. Where a notice is sent by post, service of the notice shall be deemed to be effected, provided that it has been properly mailed, addressed, and posted, at the expiration of 24 hours after the same is posted. Where a notice is sent by email or facsimile it shall be deemed to be effected as soon as it is sent, provided there is available a relevant transmission confirmation or a delivery failure notification (as the case may be).

6.2.2 A notice may be given by the Company to joint members by giving the notice to the joint member first named in the register of members in respect of the shares.

6.2.3 A notice may be given by the Company to the persons entitled to a share in consequence of the death or bankruptcy of a member by sending it through the post in a prepaid letter addressed to them by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like descriptions, at the address, if any, supplied for this purpose by the persons claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

6.2.4 Notice of every general meeting shall be given in any manner described above to:

- every member except those members who have not supplied to the Company a registered address for the giving of notices to them;
- every person upon whom the ownership of a share devolves by reason of him being a legal personal representative or a trustee in bankruptcy and who would be entitled to receive notice of the meeting; and
- the auditor for the time being of the Company.

No other person shall be entitled to receive notice of general member meetings.

## 6.3 *Borrowing powers*

The directors may exercise all of the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

6.4 *Capitalisation of profits*

The Company at a general meeting may upon the recommendation of the directors resolve to capitalise any sum, being the whole or part of the amount for the time being standing to the credit of any reserve account, profit and loss account or otherwise available for distribution to members.

6.5 *Member meetings*

6.5.1 Subject to the Cyprus Company Law, the Company will in each year hold a general meeting as its annual general meeting of members on such day and at such place as the directors determine.

6.5.2 Extraordinary meetings of members may be called at any time by the Board or by requisition in accordance with Article 126 of the Cyprus Company Law.

6.5.3 No business shall be transacted at any general member meeting unless a quorum of members is present at the time when the meeting proceeds to business; save as otherwise provided in the Articles, three members present in person or through telephone or other telecommunication connection or by proxy and entitled to vote upon the business to be transacted shall be a quorum.

6.5.4 If within half an hour from the time appointed for the meeting a quorum is not present, it shall stand adjourned to the same day in the next week at the same time and place or to such other day and at such other time and place as the directors may determine which, however, shall not be later than ten days after the original meeting. If at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members present shall be a quorum.

6.6 *Transfer of shares*

6.6.1 Subject to the Cyprus Company Law, all transfers of shares may be effected by transfer in writing in the usual or common form or in such other form as the directors may approve.

6.6.2 The registration of transfers may be suspended at such times and for such periods as the directors from time to time determine; provided, however, that such registration cannot be suspended for more than 30 days in any year.

6.7 *Voting rights*

6.7.1 Except as otherwise provided in the Articles and subject to any special terms as to voting on which any share may be issued (no such shares currently being in issue), each member is entitled to attend and vote, may attend and vote in person or by proxy and, where the member is a corporation, by a duly authorised representative at meetings of members or classes thereof. On a show of hands every member present in person (or, being a corporation, present by a duly authorised representative) is entitled to one vote and on a poll every member present in person or by proxy is entitled to one vote for every Ordinary Share of which he is holder. When two or more persons hold the same Ordinary Share jointly, the more senior member, which seniority is determined by the order in which the name of the member stands in the register of members, may vote the joint Ordinary Share to the exclusion of the other joint holders.

6.7.2 No member is entitled to vote at any general member meeting unless all calls and other amounts payable by him in respect of his shares in the Company have been fully paid.

6.7.3 A member can appoint more than one proxy each to vote for such part of the member's Ordinary Shares as the member shall designate in the instrument appointing the relevant proxy. Proxy holders are entitled to participate and vote at meetings.

6.8 *Alteration of capital*

6.8.1 The Company may by ordinary resolution: (i) increase the share capital by a sum to be divided into shares of such amount; (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares; (iii) subdivide its existing shares, or any of them, into shares of a smaller amount than is fixed by the Memorandum of Association subject to Article 60(1)(d) of the Cyprus Company Law; and (iv) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person.

6.8.2 The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with, and subject to, any extent authorised, and consent required by law.

6.9 *Redeemable shares*

Subject to the provisions of Article 57 of the Cyprus Company Law, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are or at the option of the Company are liable to be redeemed on such terms and in such manner as the Company before the issue of the shares may by special resolution determine.

6.10 *Dividends*

The Company in a general member meeting may declare dividends to be paid out of profits but no dividend will exceed the amount recommended by the Directors and Proposed Director. The Directors and Proposed Director may declare interim dividends as appear to the Directors and Proposed Director to be justified by the profits of the Company. Members are entitled to receive rateably only those dividends as may be declared by the Board out of funds which, according to the Cyprus Company Law and the Articles, are available.

6.11 *Winding up*

6.11.1 If the Company is wound up, the liquidator may:

- with the sanction of an extraordinary resolution divide among the members in kind the whole or any part of the property of the Company;
- for that purpose set a value as the liquidator considers fair on any property to be so divided; and
- decide how the division is to be carried out as between the members or different classes of members.

6.11.2 The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other securities whereupon there is any liability. Members are, in the event of the Company's winding up, entitled to share rateably in all of the Company's assets remaining after the Company pays its liabilities.

6.12 *Calls and Forfeiture*

6.12.1 Subject to the Cyprus Company Law, the directors may make calls on the members in respect of any money unpaid on their shares (whether on account of the nominal amount of the Shares or by way of premium) which is not, by the terms of issue of those shares, made payable at fixed times. The directors may revoke a call, and, if not precluded from doing so by the AIM Rules, may postpone a call, and a call may be required to be paid by instalments.

6.12.2 If a member fails to pay a call or instalment of a call on or before the day appointed for the payment of the call or instalment, the directors may, at any time afterwards while any part of the call or instalment remains unpaid, serve a notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest that has accrued and all of the expenses of the Company incurred as a result of the non-payment.

6.12.3 If the requirements of the notice served on the member relating to the call are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by resolution of the directors.

6.13 *Variation of class rights*

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of shares of that class) may not, whether or not the Company is being wound up, be varied without the sanction of an extraordinary resolution passed at a separate general meeting of the holders, in person or by proxy, of two-thirds of the issued shares of that class or a resolution passed by a simple majority at a separate general meeting if at least half of the issued share capital is represented at such a meeting.

6.14 *Indemnity of directors*

Every director, officer, agent, auditor, secretary and full-time employee for the time being of the Company will be indemnified by the Company out of the Company's assets against any liabilities incurred by that person in executing his duties including liability incurred by him in defending any proceeding (whether civil or criminal) in which judgement is given in his or her favour or in which the person is acquitted or in connection with an application in relation to such proceedings in which the court grants relief to the person under the provisions of Article 383 of the Cyprus Company Law or other applicable law.

6.15 *Disclosure of interests in shares*

- 6.15.1 Where a member becomes aware that he has either acquired an interest in 3 per cent or more of the Company's issued shares (a "notifiable interest") or has ceased to have such an interest in such share capital or to his knowledge had a notifiable interest before and after the acquisition or disposal of the interest but the percentage levels of his interest immediately before and after that time (rounded down to the next whole number) are not the same, he shall notify the Company of his interest and the date on which he acquired or ceased to hold it.
- 6.15.2 The Directors and Proposed Director may by notice in writing (a "Disclosure Notice") require any person whom the Directors and Proposed Director know or have reasonable cause to believe to be or, at any time during the three years immediately preceding the date on which the Disclosure Notice is issued, has been interested in shares to indicate within not less than 21 days whether or not it is the case and, where that person holds any interest in any such shares, to give such further information as may be required by the Directors and Proposed Director.
- 6.15.3 If the holder of, or any person appearing to be interested in shares has been served with a Disclosure Notice, and in respect of such shares (the "Default Shares"), has been in default (in whole or in part) for the relevant period in supplying the Company with the information required by the Disclosure Notice, notwithstanding anything to the contrary in the Articles, certain restrictions on voting, entitlement to dividends and transfer may apply to the Default Shares depending on whether the Default Share represents at least .25 per cent of the issued shares in the Company.

**7. Summary of Cyprus Company Law**

The following is a summary of certain provisions of Cyprus Company Law relevant to the Company's share capital and certain other matters. It should not be regarded as comprehensive.

7.1 *Pre-emption rights*

Under Article 60B of the Cyprus Company Law, all new shares in the Company issued in consideration of cash must be offered in the first instance to the shareholders on a date determined by the directors and in proportion to their participation in the share capital of the Company. Each shareholder will have no less than 14 days following its receipt of the notice of the offer, which notice will identify the proposed terms and conditions of the offer, to notify the Company of his desire to exercise his pre-emption right on the same terms and conditions proposed in the notice. The Company may by ordinary resolution of a general shareholder meeting, before the issue of any new shares, disapply the shareholders' pre-emption rights as to the issue of such new shares if the Directors and Proposed Director furnish at the general shareholder meeting a written report that describes the reasons in favour of the disapplication of the shareholders' pre-emption rights and provides information to support the proposed price of the new shares.

7.2 *Allotments of shares*

Upon the incorporation of a company, its memorandum of association will state the initial authorised share capital of the company. The board of directors may issue shares up to this initial authorised share capital without referring to shareholders but if they wish to issue shares above the initial authorised share capital this must be approved by ordinary resolution of the shareholders.

7.3 *Compulsory disclosure*

7.3.1 A company is under an obligation to keep a record of the directors' shareholdings which must include the number and type of shares they hold. This record is kept in the registered office of the company and it is open for inspection to any shareholder of the company, fourteen days prior to the annual general meeting until the third day after the end of the meeting. Furthermore, the record must be presented at the annual general meeting.

7.3.2 Articles 171 and 173 of the Cyprus Stock Exchange Law 1993 provides as follows:

- (a) If a natural or legal person, as described above, acquires or disposes of shares in a listed company (including a company admitted to AIM), or owns voting rights up to the level or above the level of 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75% or is reduced from these levels, this person must notify the Company and at the same time the Council of the Cyprus Stock Exchange (if listed in the Cyprus Stock Exchange) and the Cyprus Securities and Exchange Commission ("CySEC"). This notification must be given at the latest on the next working day after the relevant transaction took place.

- (b) The notification referred to above must: (i) be in writing and include the percentage of the voting rights and of the share capital owned before and after the transaction; (ii) if applicable provide the chain of related businesses through which the person holds the voting rights; (iii) state the date on which the transaction took place; and (iv) provide the identification details of the beneficiary even if this person is not allowed to use the voting rights, as well as the natural or legal person who is allowed to use the voting rights on behalf of the beneficiary.

7.3.3 Under the Cyprus Stock Exchange Law 1993, a company must notify the CySEC if the transaction involves shares traded in an organised market of any other Member State (including AIM).

#### 7.4 *Duties of directors*

7.4.1 The directors of a company are under a general duty to act in good faith in their dealings when acting on behalf of the company and to exercise their powers and fulfil their duties honestly. Furthermore, the directors must act in the best interests of the company and its shareholders. The fiduciary duties of directors derive from the common law in Cyprus.

7.4.2 Additional duties of the directors are found in the Cyprus Company Law. More specifically, Article 190 of the Cyprus Company Law provides that the directors of a company are under a general duty to give a written notice to the company of matters relating to themselves, including; the duty to disclose the number, description and amount of shares or debentures held by a director in the company or any other subsidiary or holding company to be recorded in the relevant registry kept by the company; the duty to disclose the income received, the pensions paid to directors or past directors and the total of any compensation paid to directors or past directors; the duty to disclose any loans to directors by the company or any subsidiary or holding company.

The directors of a company are under a duty, according to Article 191 of the Cyprus Company Law, to disclose any direct or indirect interest in a contract or proposed contract with the company and to declare this interest at a meeting of the directors of the company.

#### 7.5 *Distribution of dividends*

7.5.1 A company has the power to apply its profits for the distribution of dividends amongst its members. This power can be restricted in the memorandum of the company and similarly regulated under its articles of association.

7.5.2 Following the implementation of the Second Directive 77/91/EEC regarding the formation of public limited liability companies by the Company (amending) Law N. 70(I) of 2003, specific provisions regarding the distribution of dividends and interim dividends have been introduced in the Cyprus Company Law. Specifically, the Cyprus Company Law provides that except for cases of reductions of subscribed capital, no distribution to shareholders may be made when on the closing date of the last financial year the net assets as set out in the company's annual accounts are, or following such a distribution would become, lower than the amount of the subscribed capital including those reserves which may not be distributed under the law or the statutes of the company. Where the uncalled part of the subscribed capital is not included in the assets shown in the balance sheet, this amount shall be deducted from the amount of subscribed capital referred to above. It is further provided that the amount of the distribution to shareholders may not exceed the amount of the profits at the end of the last financial year plus any profits brought forward and sums drawn from reserves available for this purpose, less any losses brought forward and sums placed to reserve in accordance with the Cyprus Company Law.

7.5.3 The Cyprus Company Law permits the payment of interim dividends on the condition that the interim accounts shall be drawn up demonstrating that funds available for distribution are sufficient and that the amount to be distributed shall not exceed the total profits made since the end of the last financial year for which the annual accounts have been drawn up, plus any profits brought forward and sums drawn from reserves available for this purpose, less losses brought forward and sums to be placed in reserve pursuant to the requirements of the Cyprus Company Law.

7.5.4 Any distribution made to shareholders in breach of the aforesaid provisions must be returned by the shareholders who have received it if the company proves that these shareholders knew

of the irregularity of the distributions made to them or could not in view of the circumstances have been unaware of it.

7.6 *Exculpation, insurance and indemnification of directors*

7.6.1 The directors are entitled to be indemnified against all liabilities that they might incur during the management of the business of the Company. Article 197 of the Cyprus Company Law provides that any provision in the articles of association of a company which allows the indemnification of an officer from any liability for breach of the law in respect of any negligence, default, breach of duty or trust, will be void. Nonetheless, the Cyprus Company Law gives the right to an officer of a company to be indemnified against any liability incurred by him when defending any proceedings against a company. Furthermore, the officer is given the right to claim damages for any wrong incurred by him during such proceedings.

7.6.2 The Cyprus Company Law provides that the Court may in any proceedings for negligence, default or breach of duty or of trust against an officer of a company, decide that the officer acted honestly and reasonably and that under the circumstances, the officer ought fairly to be excused for the negligence, default, breach of duty or breach of trust and thus the Court may relieve him, either wholly or partly, from the liability and under such terms as the Court may think fit. The Cyprus Company Law, permits the officer to apply to the Court to obtain the order excusing him for the negligence, default, breach of duty or trust before such proceeding is even initiated against him.

7.6.3 The laws of the Republic of Cyprus do not provide for compulsory insurance of directors of a company, nor is there any provision regulating the insurance of directors.

7.7 *Notice period for shareholder meetings*

Shareholder meetings at which special resolutions are to be considered must be held on 21 clear days notice and shareholder meetings at which only ordinary resolutions to be considered must be held on 14 clear days notice.

7.8 *Duties of shareholders*

7.8.1 In a company limited by shares, the liability of the shareholders is limited by the memorandum to the amount unpaid on the shares held by each shareholder.

7.8.2 The primary duty of the shareholder to the company is to pay what is due on the share when a call for payment is made upon the shareholder by the company.

**8. Additional information on the Directors and Proposed Director**

8.1 Other than their directorships of any member of the Group, the current directorships and partnerships of the Directors and Proposed Director and the partnerships held by them during the five years preceding the date of this document are as follows:

Director	Current directorships/partnerships	Past directorships/partnerships
Lidana Bondar	Teleset Networks PCL	None
Roman Aleksandrovich Shaykhutdinov	Teleset Networks PCL	None
Ioannis Tirkides	Manglis (Holdings) Ltd Ayios Andronicas Development Co Ltd Archangelos Ltd Primetel Ltd Thunderworx Ltd	None
Philippos Vatiliotis	V&V Consultancy Services Ltd Telecom Consulting Inc Telecommunications Inc Primetel Ltd	None
Ioannis Demetriou	Teleset Networks PCL	TeleDev East Primetel Ltd

Director	Current directorships/partnerships	Past directorships/partnerships
Frank Lewis	Bio-Oz Ltd Imagemetrics Ltd MTI Wireless Edge Limited	Articsoft Limited Concen Limited Exclusive Group plc Jetcam Limited The Industry Limited Yoomeedic plc Lloyds British Testing plc Interactive Rights Management Limited

- 8.2 Save as disclosed in this document, as at the date of this document, Mr Lewis was a director of the Industry Limited until December 2003, which went into administrative receivership in December 2003.
- 8.3 Save as disclosed in this document, none of the Directors and Proposed Director has been a director of a company at the time of, or within the twelve months preceding, the commencement of a receivership, liquidation, administration, company voluntary arrangement or a composition or arrangement with creditors of that company or a partner of a partnership at the time of or within the twelve months preceding any compulsory liquidation, administration, receivership or partnership voluntary arrangement of that partnership. None of the Directors and Proposed Director (nor any partnership of which a Director has been a partner) is or has been bankrupt, made an individual voluntary arrangement with his creditors, or suffered the appointment of a receiver over any of his (or in the case of a partnership, the partnership's) assets.

## 9. Employees

As at 31 December 2003, 31 December 2004 and 31 December 2005, the Group employed 189, 194 and 199 persons respectively. As at the date of this document, the Group employs 214 persons.

## 10. Material contracts

The following contracts not being contracts entered into in the ordinary course of business, have been entered into by the Company, Teleset or Teleset Invest within the two years immediately preceding the date of this document and are or may be material:

### 10.1 *Loan agreement with Black Sea Trade and Development Bank*

On 26 October 2004 Teleset entered into a loan agreement with the Black Sea Trade and Development Bank (the "Bank") (the "Loan Agreement") and Teleset Invest, Teledev East Limited, Teleset and the Bank entered a sponsor support, share retention and subordination agreement the ("Sponsor Agreement"). Under the Loan Agreement the Bank agrees to lend an amount not exceeding \$10,000,000 to Teleset during the period expiring on the earlier of 24 months from the date of the agreement, the date on which the full amount has been advanced and the date on which the Bank's obligation to make advances under the Loan Agreement terminates. Teleset agreed to pay, *inter alia*, a commitment fee of 0.5 per cent per annum of such amount of the loan as has not been advanced to Teleset, a commission of 1 per cent of the facility amount of \$10,000,000 and interest on the principal amount of each advance at the rate of 4 per cent per annum plus LIBOR for the interest period concerned. The loan shall be repaid in 20 consecutive equal quarterly instalments from the first interest payment date which falls after the expiry of 24 months after the date of the Loan Agreement and ends on the interest payment date which immediately precedes the expiry of 84 months after the date of the Loan Agreement.

As of the date of this document, \$10,000,000 has been advanced to Teleset and remains outstanding.

Under the Sponsor Agreement, TeleDev East agreed to pledge the shares in the Subsidiaries by way of security for the the fulfilment of the obligations of Teleset LLC under the Loan Agreement. It also agreed to certain restrictions in relation to the shares it held in the Subsidiaries including, *inter alia*, not to transfer or dispose of all or any participatory interests held by it in either of the Subsidiaries. Pursuant to a letter dated 22 August 2006, the Bank provided its consent to the transfer of the share capital in the Subsidiaries to the Company and Admission for the purposes of the Loan Agreement and the Sponsor Agreement and agreed to the release of the pledge of the shares in the Subsidiaries solely in relation thereto. Under the Sponsor Agreement, the Subsidiaries and TeleDev East Limited agreed to certain negative covenants under the respective agreements including a restriction on the payment of dividends except if no Event of Default or Potential Event of Default (as defined in the relevant documentation) has occurred and is continuing and the payment of dividends or other distributions would not lead to an Event of Default or a Potential Event of Default.

10.2 *Lock-in agreements*

The Company, Corporate Synergy, Metropol and the Lock-in Persons entered into a deed pursuant to which the Lock-in Persons undertook to each of Metropol, Corporate Synergy and the Company not to dispose or agree to dispose of any Ordinary Shares held by them within the first twelve months following the date of Admission (“the First Period”) and within the period of the subsequent twelve months to do so only through Metropol in such orderly manner as Metropol shall reasonably determine with a view to ensuring an orderly market for the Company’s issued share capital, such determination to be made within seven days of the service of notice of the proposed disposal to each of the Board, Corporate Synergy and Metropol.

These restrictions do not apply to any disposal which is made:

- 10.2.1 with the prior written consent of Metropol and Corporate Synergy; or
- 10.2.2 in the acceptance of, or the execution of an irrevocable commitment to accept, any bona fide offer made or announced in accordance with applicable Cypriot law by any third party for the whole of the ordinary share capital of the Company; or
- 10.2.3 by the personal representative of any Shareholder if he shall die during the First Period provided that the sale of any Ordinary Shares (or any interest therein) by such personal representative during such period shall be effected through Metropol in such orderly manner as Metropol shall determine upon the expiry of 7 days notice of the proposed disposal to each of the Directors and Proposed Directors of the Company, Corporate Synergy and Metropol; or
- 10.2.4 in connection with any sale or arrangement pursuant to an order of a court of competent jurisdiction requiring any Ordinary Shares to be disposed of or pursuant to a consent order with the same effect;
- 10.2.5 pursuant to an offer by the Company to purchase its own Ordinary Shares which is made on identical terms to all holders of the same class of Ordinary Shares and which otherwise complies with applicable Cypriot law;
- 10.2.6 to a Shareholder’s “Connected Person” (as defined in the agreement) provided that, prior to such disposal, sale or transfer, such Connected Person enters into an undertaking in the same form as the agreement in respect of any shares so acquired which shall be deemed to be Ordinary Shares and provided that where such Connected Person ceases to be a Connected Person, he, she or it shall transfer such Ordinary Shares back to the Shareholder;
- 10.2.7 for the purpose of effecting the appointment of a new trustee, or for the purpose of retiring as a trustee, of a trust or settlement set up for the sole benefit of that Shareholder and/or a Connected Person of such Shareholder, provided that such new trustee, before registration of any transfer of such Ordinary Shares to such new trustee, executes an undertaking in relation to such Ordinary Shares in similar terms to that contained in the agreement in a form reasonably satisfactory to the Company, Corporate Synergy and Metropol (which shall be evidenced by written confirmation);
- 10.2.8 pursuant to a compromise or arrangement between the Company and its members;
- 10.2.9 to a company of which that Shareholder holds the entire equity share capital of such company provided that, prior to such disposal, such company enters into an undertaking in the same form as the agreement in respect of any shares so acquired which shall be deemed to be Ordinary Shares and provided that when such company ceases to be so wholly owned, it shall transfer such Ordinary Shares back to the Shareholder;
- 10.2.10 to his nominee holding on behalf of that Shareholder or the Shareholder’s Connected Person, or where the Shareholder is a nominee for any other person on the date of the agreement, to that person or another nominee holding on behalf of that person provided that, prior to such disposal, such person or nominee enters into an undertaking in the same form as the agreement in respect of any shares so acquired which shall be deemed to be Ordinary Shares and provided that when such person or nominee ceases to be a nominee or a nominee holding on behalf of that person, it shall transfer such Ordinary Shares back to the Shareholder; or
- 10.2.11 by the Shareholder, being a holding company, to its wholly owned subsidiary or by a Shareholder, being a wholly owned subsidiary, to its holding company or any other wholly owned subsidiary of that holding company provided that, prior to such disposal, such

company enters into an undertaking in the same form as the agreement in respect of any shares so acquired which shall be deemed to be Ordinary Shares and provided that when such company ceases to be so wholly owned, or a holding company, or a wholly owned subsidiary of that holding company it shall transfer such Ordinary Shares back to the Shareholder.

### 10.3 *Introduction agreement*

10.3.1 An agreement (the “Introduction Agreement”) dated 6 October 2006 between the Company, the Directors and Proposed Director, Corporate Synergy and Metropol, pursuant to which Corporate Synergy has agreed (conditionally, among other things, on Admission taking place on or before 08.00 a.m. on 12 October 2006, or such later time as the parties may agree, but not being later than 30 November 2006) to support the application for Admission.

10.3.2 Under the Introduction Agreement, the Company has agreed to pay Corporate Synergy and Metropol (together with any applicable VAT) such amounts as are payable pursuant to the Corporate Synergy Engagement Letter and the Metropol Engagement Letter respectively together with their reasonably and properly incurred expenses in connection with the Admission including legal costs and the fees and expenses of the solicitors to Corporate Synergy and Metropol.

10.3.3 The Introduction Agreement contains warranties and indemnities given by the Company and certain of the Directors and Proposed Director on a joint and several basis (but by Frank Lewis and Ioannis Tirkides severally only) as to the accuracy of the information contained in this document and other matters relating to the Company and its business. Corporate Synergy and Metropol are entitled to terminate the Introduction Agreement in certain specified circumstances prior to Admission including in the case of an inaccurate statement in this document, a breach of warranty, upon the occurrence of any “significant event” (as defined in the Introduction Agreement) or in *force majeure* circumstances. In addition, the Directors and Proposed Director undertake to each of Corporate Synergy and Metropol to comply with the provisions of the AIM rules.

### 10.4 *Engagement letters with Metropol and Corporate Synergy*

#### *Engagement letter with Corporate Synergy*

An agreement (the “Nomad Engagement Letter”) dated 18 July 2006 between the Company and Corporate Synergy, pursuant to which Corporate Synergy has agreed to act as “Nominated Adviser” for the purposes of Admission.

The Company has further agreed to pay the reasonable disbursements of Corporate Synergy and the costs of its solicitors.

This Nomad Engagement Letter provides that the Company will retain Corporate Synergy as its nominated adviser for an initial period of 24 months from Admission on and subject to a Nominated Adviser Agreement to be entered into between the Company and Corporate Synergy immediately prior to Admission.

The Company has undertaken with Corporate Synergy to indemnify Corporate Synergy, any group Company of Corporate Synergy and their respective directors, officers and employees against all losses or claims which they may suffer (including but without limitation investigating or defending any claim and enforcing its rights under the Nomad Engagement Letter) in connection with any service provided by Corporate Synergy pursuant to the Nomad Engagement Letter which does not arise from the fraud, negligence or wilful default by Corporate Synergy.

#### *Engagement letter with Metropol*

An agreement (the “Metropol Engagement Letter”) dated 22 March 2006 between the Company and Metropol pursuant to which Metropol has agreed to act as broker for the purposes of Admission.

The Company has also agreed to reimburse Metropol promptly for all reasonable out of pocket expenses and the fees and reasonable expenses of Metropol’s legal advisers.

The Company has undertaken to indemnify Metropol and its associated undertakings against certain liabilities which Metropol or its associated undertakings may incur relating to, *inter alia*, Admission.

*Broker agreement with Metropol*

An agreement (the “Broker Agreement”) dated 6 October 2006 between the Company and Metropol pursuant to which Metropol have agreed to act as on going “Nominated Broker” for a period of twenty-four months from the date of the agreement.

The Company has also agreed to reimburse Metropol promptly for all reasonable out of pocket expenses and the fees and reasonable expenses of Metropol’s legal advisers.

Following the second anniversary of the date of its commencement, either the Company or Metropol may terminate the Broker Agreement on thirty days’ written notice although in such circumstances Metropol shall be entitled to such of its fee as will have accrued on a daily basis since the last payment.

The Company has undertaken to indemnify Metropol and its associated undertakings from certain liabilities which Metropol or its associated undertakings may incur in relation to, *inter alia*, Metropol’s appointment as broker to the Company.

*Agreement for the provision of share registry services*

An agreement (the “Share Registry Services Agreement”) dated 7 September 2006 between the Company and CLR Securities and Financial Services Ltd (“CLR”) pursuant to which CLR has agreed to provide registry services in return for a fee of £5,000 per annum including VAT which shall be payable within two months from the date of the Share Registry Services Agreement.

The Company undertakes to compensate CLR, its directors, representatives and staff for any third party claims or for any other damages that may arise from the provision of the above services and which are the fault of the Company up until the day of receipt of the registry by CLR. CLR shall have the right to defend any such claims, legal action or cause for legal action, and the Company shall be responsible to CLR for the payment of legal fees, as well as court and any other expenses in the event of such action.

This Share Registry Services Agreement shall be valid for a period of one year and shall be renewed automatically unless either of the parties to it gives three months’ notice of termination to the other.

10.5 *Nominated adviser agreement with Corporate Synergy*

An agreement (the “Nomad Agreement”) dated 6 October 2006 between the Company, the Directors and Proposed Directors and Corporate Synergy pursuant to which the Company, conditionally upon Admission having occurred by 31 October 2006, has appointed Corporate Synergy as its “Nominated Adviser” (for the purposes of the AIM Rules) for a minimum of two years from Admission.

The Nomad Agreement is terminable thereafter following the expiry of the initial two year period on the giving of not less than three months’ written notice by either party.

The Company shall also pay Corporate Synergy’s out of pocket expenses reasonably and properly incurred in connection with the appointment hereunder within 28 days after the issue of the invoice thereof.

The Company has undertaken to indemnify Corporate Synergy, its associated undertakings and its directors, officers and employees against all claims brought against Corporate Synergy or its directors, officers or employees and against all liabilities or losses which Corporate Synergy or its directors or employees may suffer or incur (including but not limited to responding, disputing or appealing against any claim or establishing its right to be indemnified) in connection with the appointment under this Nomad Agreement unless the same result from the gross negligence, wilful default or fraud of Corporate Synergy or any material breach by Corporate Synergy of its obligations under the Nomad Agreement.

10.6 *Directors’ and Proposed Director’s service agreements and emoluments*

10.6.1 With effect from 1 September 2006, Yiannis Demetriou is engaged as Chief Executive Officer of the Company under the terms of a service agreement dated 6 October 2006 with a current annual salary of €150,000 excluding bonuses and benefits, terminable by either party on six months’ written notice. Mr Demetriou has been a director of the Company since 19 June 2006.

10.6.2 With effect from 1 September 2006, Roman Shaikhutdinov is engaged as Chief Operating Officer of the Company under the terms of a service agreement dated 6 October 2006 with a current annual salary of €57,000 excluding bonuses and benefits, terminable by either party on

six months' written notice. Mr Shaikhutdinov has been a director of the Company since 19 June 2006.

- 10.6.3 With effect from 1 September 2006, Lidana Bondar is engaged as Chief Financial Officer of the Company under the terms of a service agreement dated 6 October 2006 with a current annual salary of €36,000 excluding bonuses and benefits, terminable by either party on six months' written notice. Ms Bondar has been a director of the Company since 19 June 2006.
- 10.6.4 Frank Lewis has been appointed a non-executive director of the Company with effect from and conditional upon Admission under the terms of a letter of appointment dated 1 August 2006 for a fee of £20,000 per annum for the first year of his appointment. In addition Frank Lewis agrees to devote 24 days a year to the performance of his duties as a non-executive director and within that period 2 days in each calendar month. If further time is required in addition to 24 days per year then the Company will pay him £750.00 per additional day worked (pro rata for part days of less than 8 hours). Either party may terminate the agreement upon one month's written notice to the other.
- 10.6.5 Philippos Vatiliotis has been reappointed as non-executive director of the Company with effect from and conditional upon Admission under the terms of a letter of appointment dated 24 August 2006 for a fee of £20,000 per annum for the first year of his appointment. In addition Philippos Vatiliotis agrees to devote 24 days a year to the performance of his duties as a non-executive director and within that period 2 days in each calendar month. If further time is required in addition to 24 days per year then the Company will pay him £750.00 per additional day worked (pro rata for part days of less than 8 hours). Either party may terminate the agreement upon one month's written notice to the other.
- 10.6.6 Ioannis Tirkides has been reappointed as non-executive director of the Company with effect from and conditional upon Admission under the terms of a letter of appointment dated 24 August 2006 for a fee of £20,000 per annum for the first year of his appointment. In addition Ioannis Tirkides agrees to devote 24 days a year to the performance of his duties as a non-executive director and within that period 2 days in each calendar month. If further time is required in addition to 24 days per year then the Company will pay him £750.00 per additional day worked (pro rata for part days of less than 8 hours). Either party may terminate the agreement upon one month's written notice to the other.

## 11. Licences and regulations

According to Clause 1 of Article 49 of the Civil Code of the Russian Federation a company may conduct certain kinds of activity, (a list of which is defined by law), only if it has a special permit or licence. The main business of the Company is the provision of telecommunication services. According to Article 29 of the Federal law No. 126-FZ dated 7 July 2003 On Communications (the "**Communications Law**"), companies and individuals may only provide communication services if permitted by licence.

According to Article 4 of the Communications Law, the legislation of the Russian Federation in relation to communications is based on the Constitution of the Russian Federation and consists of the said Communications Law (which establishes basic principles of activity in relation to communications such as state regulation, licensing, responsibility for violations of the legislation on communications etc.) and other federal laws as well as legal acts adopted by the President, Government and other state authorities within the scope of their competence. Most of the rules in this sphere are established by Resolutions of the Government of the Russian Federation adopted in compliance with the Communications Law.

In compliance with Clause 2 Article 44 of the Communications Law, the terms on which communications services are provided must be approved by the Government of the Russian Federation. A number of the resolutions were adopted by the Government such as: the Resolution No.32 dated 23 January 2006 "On Approval of the Rules of Providing Telecommunication Services on Data Transfer", the Resolution No.161 dated 28 March 2006 "On the Approval of the Rules of Networks Connection and Interconnectivity", the Resolution No.310 dated 18 May 2005 "On the Approval of the Rules of Rendering of Local, Intra-Zone, Long-Distance and International Telephone Communication" and other Resolutions. These Resolutions deal with rights and obligations of the customers and the operators, general rights of termination and key terms of the contracts between operators and customers in relation to telecommunications such as general conditions of providing telecommunication services, rules and conditions for suspension, amendment and termination of contracts, claims procedures, and liability of the relevant parties.

In order to obtain a licence an applicant must submit an application and a number of supporting documents listed in Article 30 of the Communications Law to the state licensing body. According to Clause 1 Article 32 of the Communications Law the decision on the issue of a licence or on its refusal shall be taken by the licensing body within a term not exceeding thirty days as from the day of receiving an application from the applicant with all the necessary documents together with reasons for the decision. Clause 3 Article 32 of the Communications Law provides that after receiving the notification of the issue of a licence, the applicant must pay the licence fee. The licence shall be issued within three days after the applicant submits documentary evidence in support of the payment of the licence fee. The maximum cost of the fee for the licence to provide telecommunication services is limited by the law to 15,000 Rubles (approximately £320).

According to the Resolution of Government of the Russian Federation No.87 of 18 February 2005 “On Endorsement of the List of the Names of Communication Services Entered in Licenses and the Lists of License Terms” there are licence terms which are binding upon every person providing licensing services. The Communications Law and the Administrative Code of the Russian Federation impose penalties for breaches of the licence terms in the form of (i) administrative fines; (ii) suspension of the licence; and (iii) revocation of the licence.

The Company holds the following licences:

No.	Licence number and type of activity subject to licensing	Date of issue	Date of expiration	Territory of operation
1	No 39363, Interregional telephone services	15 March 2006	15 March 2011	The Republic of Tatarstan
2	No 34724, Local telephone services with use of common access facilities	14 September 2005	14 September 2010	The Republic of Tatarstan
3	No 24745, Lease of communication channels	30 December 2002	30 December 2007	The Republic of Tatarstan
4	No 24165, Telematic services	14 November 2002	14 November 2007	The Republic of Tatarstan
5	No 24164, Data communication services	14 November 2002	14 November 2007	The Republic of Tatarstan
6	No 30400, Local telephone services	30 December 2003	30 December 2010	Mariy El, Chuvashiya, Vladimir region, Moscow region, Nizhniy Novgorod region, Moscow
7	No 30398, Telematic services	30 December 2003	14 November 2007	Mariy El, Chuvashiya, Vladimir region, Moscow region, Nizhniy Novgorod region, Moscow
8	No 30399, Lease of communication	30 December 2003	30 December 2007	Mariy El, Chuvashiya, Vladimir region, Moscow region, Nizhniy Novgorod region, Moscow
9	No GS-4-16-02-27-0-1658028053-002681-1, Construction of Buildings and Structures of the 1st and 2nd Responsibility Levels in Conformity with the State Standard	26 December 2002	26 December 2007	The Russian Federation
10	No GS-4-16-02-26-0-1658028053-007415-1, Construction of Buildings and Structures of the 1st and 2nd Responsibility Levels in Conformity with the State Standard	10 January 2006	10 January 2011	The Russian Federation
11	No 37720, Telecommunication service and voice data transfer in communications network	23 December 2005	23 December 2010	Kazan city of the Republic of Tatarstan
12	No 30397, Data communication services	30 December 2003	14 November 2007	Mariy El, Chuvashiya, Vladimir region, Moscow region, Nizhniy Novgorod region, Moscow
13	No 15293, Local telephone services	3 July 2000	3 July 2010	The Republic of Tatarstan

The Company intends to apply for the renewal or extension of licences whose date of expiration is in 2007. In order to extend the term of a licence the applicant must apply to a licensing body with the application and other documents listed in Article 30 of the Communications Law not later than 2 months and not earlier than 6 months before the date of expiration of the existing licence. The decision on the extension of a licence or on its refusal will be taken by the licensing body within a term not exceeding forty five days as from the day of the receipt of the application.

## 12. Litigation

Save as otherwise set out in this document, there have been no governmental, legal or arbitration proceedings in the 12 months' prior to the date of this document (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the recent past a significant effect on the Company's and/or the Group's financial position or profitability.

## 13. Working capital

The Directors and Proposed Directors are of the opinion that, having made due and careful enquiry, the working capital available to the Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

## 14. Taxation

**The following summary, which is intended as a general guide only, outlines certain aspects of current Cypriot and UK tax legislation, and what is understood to be the current practice of the Inland Revenue Department of the Republic of Cyprus and HM Revenue & Customs ("HMRC") in the UK regarding the ownership and disposal of Ordinary Shares or DIs. Shareholders should be aware that future legislative, administrative and judicial changes could effect the taxation consequences described below.**

The Company is at the date of this Offer resident for tax purposes in the Republic of Cyprus (hereinafter referred to as "Cyprus") and the following is based on that status. This summary is not a complete and exhaustive analysis of all the potential UK and Cypriot tax consequences for holders of Ordinary Shares or DIs of the Company. It addresses certain limited aspects of the Cypriot and UK taxation positions of Shareholders who are absolute beneficial owners of their Ordinary Shares or DIs and are resident for tax purposes in Cyprus or resident or (if individuals) ordinarily resident in the UK, and who hold their Ordinary Shares or DIs as an investment. This summary does not address the position of certain classes of shareholders, such as dealers in securities, market makers, brokers, intermediaries, collective investment schemes, pension funds or UK insurance companies or whose shares are held under a personal equity plan or an individual savings account or are "employment related securities" as defined in Section 421B of the Income Tax (Earnings and Pensions) Act 2003, or persons who (together with associates) own 10 per cent or more of the voting power of the Company. Any person who is in any doubt as to his tax position or who is subject to taxation in a jurisdiction other than the UK or Cyprus should consult his professional advisers immediately as to the taxation consequences of his purchase, ownership and disposition of Ordinary Shares or DIs.

### 14.1 Taxation of Dividends

#### 14.1.1 Cypriot withholding tax

No Cypriot withholding taxes of any kind will apply to any payment or deemed distribution of dividends made by the Company to holders (companies and individuals) of the Company's Shares or DIs who are not tax resident in Cyprus, or to dividend payments made by the Company to Cypriot tax resident companies. Dividend payments to Cypriot tax resident individuals will be subject to a withholding in respect of the Special Contribution for Defence ("SCD") (currently 15 per cent). Such SCD will be deductible at source by the Company from the dividend when paid.

The Cypriot legislation relating to SCD includes deemed distribution provisions which can apply where the Company does not within a specified period distribute at least 70 per cent of its post tax profits. Under these provisions, SCD is charged on the Company by reference to the Company's Shares or DIs which are held by Cypriot tax resident individuals and companies as at the date that the deemed distribution is treated as arising. These provisions do not apply to profits attributable to non-Cypriot tax resident shareholders (companies or individuals). Where SCD is charged under the deemed distribution rules, the SCD so charged will be offset against SCD payable by the Company when an actual dividend is paid to an individual resident in Cyprus.

14.1.2 *Cypriot taxation of Cypriot resident shareholders*

14.1.2.1 *Individual shareholders*

Individuals resident in Cyprus are exempt from Cypriot personal income tax on dividends received. Dividends received by individual shareholders are subject to SCD at 15 per cent which is withheld and accounted for by the Company. SCD constitutes a final tax which is not available for repayment or relief against the individual's Cypriot taxation liability in respect of his or her income.

14.1.2.2 *Corporate shareholders*

A shareholder that is either a Cypriot resident company, or the permanent establishment in Cyprus of a company which is not tax resident in Cyprus, is exempt from Cypriot corporation tax and SCD in respect of dividends received from the Company.

14.1.3 *Cypriot taxation of shareholders not tax resident in Cyprus*

A shareholder who is not resident in Cyprus for tax purposes is not subject to Cypriot SCD or Cypriot income tax on his dividend income.

14.1.4 *UK taxation of UK resident or ordinarily resident shareholders*

14.1.4.1 *Individual shareholders*

Individuals who are resident or ordinarily resident in the UK who receive a dividend paid by the Company will, in general, be subject to UK income tax on the dividend. If the individual is assessable to tax at the basic or lower rate of income tax, the dividend will be subject to tax at the dividend ordinary rate of 10 per cent. If the individual is assessable to tax at the higher rate of income tax, the dividend will be subject to tax at the dividend upper rate of 32.5 per cent to the extent that the dividend when treated as the top slice of the shareholder's income, falls above the threshold for higher rate income tax.

14.1.4.2 *Corporate shareholders*

Corporate shareholders that are UK resident for taxation purposes and receive a dividend paid by the Company will be liable to UK corporation tax on the dividend.

Persons who are not resident in the UK or Cyprus should consult their own tax advisers on the taxation of dividend income received from the Company in the jurisdiction in which they are resident and on what relief or credit may be claimed.

14.2 *Taxation of chargeable gains*

14.2.1 *Cypriot taxation on chargeable gains of Cyprus resident shareholders*

Any disposal of Ordinary Shares or DIs by an individual who is resident for tax purposes in Cyprus is exempt from Cypriot taxation. Similarly, any disposal of Ordinary Shares or DIs by a company resident in Cyprus or the permanent establishment in Cyprus of a company which is not tax resident in Cyprus will be exempt from Cypriot taxation.

A disposal of Ordinary Shares or DIs by a non Cypriot resident person will not be liable to Cypriot taxation.

14.2.2 *UK taxation on chargeable gains*

Shareholders who are neither resident nor ordinarily resident in the UK will not be subject to UK tax on capital gains on a disposal of the Ordinary Shares or DIs unless the Shareholder is carrying on a trade or profession in the UK through a permanent establishment, branch or agency and the Ordinary Shares or DIs are used or held for the purposes of that trade or profession.

Shareholders, who are either resident or ordinarily resident in the UK for taxation purposes will, in general, be subject to UK taxation on capital gains on a disposal of Ordinary Shares or DIs. In addition any holders of shares who are individuals and who dispose of shares while they are temporarily non resident may be treated as disposing of them in the tax year in which they again become resident in the UK.

For UK individuals, taper relief may reduce any chargeable gain on a disposal of shares and for UK corporates, indexation allowance may apply to reduce any such gain.

Persons who are not resident in the UK or Cyprus should consult their own tax advisers on the taxation of disposals of Ordinary Shares or DIs in the jurisdiction in which they are resident.

### 14.3 *Inheritance and gift taxes*

#### 14.3.1 *Cyprus*

There is no gift, wealth or inheritance tax to which a transfer of Ordinary Shares of the Company should apply.

#### 14.3.2 *UK*

Ordinary shares in trading companies which are traded on AIM potentially qualify for Business Property Relief (“BPR”) which can provide an exemption from Inheritance Tax of up to 100 per cent. Where an investor makes a lifetime gift of shares or dies while still the owner of the shares, no inheritance tax may be payable in respect of the value of the shares, provided the relevant conditions are met and 100 per cent exemption is due. BPR may be unavailable to shareholders if the company carries on certain excluded activities including the making or holding of investments. BPR is restricted to the extent that the value of a company’s business includes excepted assets.

Shareholders should consult their professional advisers if they intend to make a gift of shares of any kind or intend to hold any Ordinary Shares or DIs through trust arrangements. They should also seek professional advice in a situation where there is a potential for a double charge to UK Inheritance Tax and an equivalent tax in another country.

### 14.4 *Cypriot Capital Duty*

Capital duty is payable in respect of the authorised and issued share capital of a Cypriot company and on subsequent changes therein as follows:

- Authorised or additional authorised share capital: 0.6 per cent on the nominal value;
- Issued: CYP 10 flat amount on every issue, whether at nominal value or at a premium.

### 14.5 *Cypriot Stamp Duty*

Stamp duty arises in Cyprus on certain types of documents (including contracts) that relate to:

- (i) Assets located in Cyprus; and
- (ii) transactions that take place in Cyprus.

A contract on which Cypriot stamp duty arises includes for these purposes the transfer of shares. Cypriot stamp duty is calculated on the value of each contract as follows:

- 0.15% – up to CYP 100,000; and
- 0.2% – over CYP 100,000.

### 14.6 *UK Stamp Duty and SDRT*

The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with voluntary arrangements or clearing services for whom special rules apply.

Since the Company does not maintain a share register in the UK, no UK stamp duty will be chargeable on transfers on sale of Ordinary Shares.

UK stamp duty at a fixed rate of £5 per transfer will be payable where an investor wishes to deposit the Ordinary Shares with the depository in order that DIs will be issued under the depository interest arrangements outlined in paragraph 14.1.4 of this Part VI.

UK stamp duty reserve tax (at 0.5 per cent of the purchase price) will be chargeable in respect of an agreement to sell DIs representing the Ordinary Shares.

## 15. **CREST**

### 15.1 *Introduction*

15.1.1 The Ordinary Shares (including the Market Maker Shares) are in registered and certificated form. Dealings in the Ordinary Shares will be effected through DIs as further described below. The register of members of the Company is kept by the Company at its registered office. Computershare Investor Services plc will maintain a register of DIs.

- 15.1.2 CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK registered companies, such as the Company, cannot be held or transferred in the CREST system. However, to enable investors to settle such securities through CREST, a depository or custodian can hold the relevant securities and issue dematerialised DIs representing the underlying securities which are held on trust for the holders of the DIs.
- 15.1.3 It is possible for CREST members to hold and transfer interests in Shares within CREST pursuant to a DI arrangement established by the Company. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will also be able to do so.
- 15.1.4 The Ordinary Shares will not themselves be admitted to CREST. Instead Computershare, acting as depository, will issue DIs in respect of the underlying Shares. The DIs will be independent securities constituted under English law which may be held and transferred through CREST. DIs have the same international security identification number (ISIN) as the underlying Ordinary Shares and will not require a separate listing on AIM. The DIs will be created and issued pursuant to a deed poll (the "Deed Poll") entered into by Computershare Investor Services plc, which governs the relationship between Computershare as depository, and the holders of DIs.
- 15.1.5 Holders of Ordinary Shares in certificated form who wish to hold DIs through the CREST system may be able to do so and should contact Computershare.
- 15.2 *Summary of the Deed Poll*
- 15.2.1 As mentioned above, the DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll is executed by Computershare, as depository, in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against CRESTCo or its subsidiaries in respect of the underlying Ordinary Shares or the DIs representing them.
- 15.2.2 Ordinary Shares will be transferred to an account of Computershare or its nominated custodian (the "Custodian") and Computershare will issue DIs to participating members.
- 15.2.3 Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. Computershare will pass on to holders of DIs any stock or cash benefits received by it as holder of Ordinary Shares on trust for such DI holder. DI holders will also be able to receive from Computershare notices of meetings of holders of Ordinary Shares and other information to make choices and elections issued by the Company to the Shareholders. In summary, the Deed Poll contains, provisions, *inter alia*, to the following effect:
- 15.2.3.1 Computershare will hold (itself or through the Custodian), as bare trustee, the underlying securities issued by the Company and all and any rights and other securities, property and cash attributable to the underlying securities for the time being held by Computershare or the Custodian pertaining to the DIs for the benefit of the holders of the DIs. Computershare will reallocate securities or distributions allocated to Computershare or the Custodian pro rata to the Ordinary Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.
- 15.2.3.2 Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to Computershare or the Custodian on behalf of the Depository for the account of the DI holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Company's articles of association or any contractual obligation, or applicable law or regulation binding or affecting such holder.
- 15.2.3.3 Computershare and any Custodian must pass on to DI holders, or exercise on their behalf, all rights and entitlements received by Computershare or the Custodian in respect of the underlying securities. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on, or exercised in accordance with the Deed Poll. If arrangements are made which allow

a holder to take up rights in the Company's securities requiring further payment, the holder must put Computershare in cleared funds before the relevant payment date or other date notified by Computershare if it wishes Computershare to exercise such rights.

- 15.2.3.4 Computershare will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances including where a DI holder fails to furnish to Computershare such certificates or representations as to material matters of fact, including his identity, as Computershare deems appropriate.
- 15.2.3.5 The Deed Poll contains provisions excluding and limiting Computershare's liability. For example, Computershare shall not be liable to any DI holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or wilful default or fraud or that of any person for whom it is vicariously liable, provided that Computershare shall not be liable for the negligence, wilful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent. Furthermore, Computershare's liability to a holder of DIs will be limited to the lesser of:
- the value of the shares and other deposited property properly attributable to the DIs to which the liability relates; and
  - that proportion of £5 million which corresponds to the proportion which the amount that Computershare would otherwise be liable to pay to the DI holder bears to the aggregate of the amounts Computershare would otherwise be liable to pay to all such holders in respect of the same act, omission, or event or, if there are no such amounts, £5 million.
- 15.2.3.6 is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.
- 15.2.3.7 The holders of DIs are required to agree and acknowledge with Computershare that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from stamp duty reserve tax is so exempt, and to notify Computershare if this is not the case, and to pay to CRESTCo any interest, charges or penalties arising from nonpayment of stamp duty reserve tax in respect of such transaction.
- 15.2.3.8 DI Holders are required to acknowledge and agree with Computershare that Computershare and the Custodian may hold DI holders' money entitlements in client bank accounts outside the UK on a pooled basis pending distribution and that such monies may not be protected as effectively as money held in a bank account in the UK and, in particular, that the relevant bank may be entitled to combine funds held in a client account with any other account of Computershare or Custodian or to exercise any right of set-off or counter-claim against money held in a client bank account in respect of any sum owed to it on any other account by Computershare or the Custodian.
- 15.2.3.9 Each holder of DIs is liable to indemnify Computershare and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by Computershare or the Custodian in connection with the DIs) held by that holder, other than those resulting from the wilful default, negligence or fraud of Computershare, or the Custodian or any agent if such Custodian or agent is a member of Computershare's group or if, not being a member of the same group, Computershare shall have failed to exercise reasonable care in the appointment and continued use of such Custodian or agent.
- 15.2.3.10 Computershare is entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

- 15.2.3.11 Computershare may terminate the Deed Poll by giving 90 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, Computershare must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all or part of such deposited property. It shall, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to Computershare, together with any other cash held by it under the Deed Poll pro rata to holders of DIs in respect of their DIs.
- 15.2.3.12 The Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by Computershare or the Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Articles of Association require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with the Company's instructions with respect thereto.
- 15.2.3.13 It should also be noted that holders of DIs may not have the opportunity to exercise all of the rights and entitlements available to holders of the Ordinary Shares including, for example, the ability to vote on a show of hands. In relation to voting, it will be important for holders of DIs to give prompt instructions to Computershare to vote the underlying shares on their behalf.

## **16. Intellectual property**

Teleset owns two registered trademarks issued by the Russian agency on patents and trademarks, comprising the word "TELESET" and a figurative mark which it uses in connection with its business. It has also applied for registration of a further figurative trademark and the word "NEXTRIM". The Company also licences various software programs relating to the maintenance of customer account details, billing and financial reporting, traffic flow and data accumulating.

## **17. Related party transactions**

- 17.1 A guarantee No 14-06/P-1 of 9 February 2006 between Teleset Invest and Uniastrum Bank LLC (the "Guarantee") pursuant to which Teleset Invest guarantees the obligations of Stelkom LLC (a related party to the Company within the meaning of the AIM Rules) to Uniastrum Bank LLC under an overdraft facility granted by Uniastrum Bank LLC to Stelkom LLC for one year. Under the Guarantee, Teleset Invest is liable for the following sums: the maximum amount of the overdraft (30,000,000.00 RUR), interest at the rate of 16 per cent per annum, commission for the grant of the overdraft (53,100.00 RUR) and a penalty charge for late payment of 0.3 per cent per day in respect of both interest and principal outstanding.
- 17.2 A guarantee No 1132-05/P-2 of 31 October 2005 between Teleset and Uniastrum Bank LLC (the "Guarantee") pursuant to which Teleset guarantees the obligations of Stelkom LLC ( a related party to the Company within the meaning of the AIM Rules) to Uniastrum Bank LLC under loan agreement No 1132-05/Kp of 31 October 2005. In the event of breach of the loan agreement by Stelcom LLC, Uniastrum Bank LLC may enforce the Guarantee against Teleset up to a maximum sum of \$300,000 plus interest and penalties.
- 17.3 A guarantee No 356P/06/010 of 30 March 2006 between Teleset and Promsvyazlizing LLC (the "Guarantee") pursuant to which Teleset guarantees the obligations of Stelkom LLC to Promsvyazlizing LLC under leasing agreement No 356L/06/021 of 30 March 2006. Under the Guarantee, Teleset is liable for the sum of \$525,498.00.

## **18. General**

- 18.1 The information contained in this document which has been sourced from third parties has been accurately reproduced and, as far as the Company and the Directors and Proposed Directors are aware and are able to ascertain from such third party information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

- 18.2 UHY Hacker Young has given and not withdrawn its written consent to the inclusion in Parts IV and V of this document of their reports and to the issue of this document and the references to their name in the form and context in which it appears.
- 18.3 UHY Hacker Young is a member of the Institute of Chartered Accountants in England and Wales.
- 18.4 Corporate Synergy Plc has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 18.5 Metropol (UK) Limited has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 18.6 Save as disclosed in this document, there have been no significant changes in the financial or trading position of the Group since 31 December 2005.
- 18.7 The accounting reference date of the Company is 31 December.
- 18.8 Other than the application for Admission, no other applications have been made for the Ordinary Shares to be admitted to dealings on a recognised investment exchange and save in connection with the application for Admission, there are not intended to be any other arrangements for dealings in the Ordinary Shares.
- 18.9 The total costs and expenses payable by the Company in connection with Admission and the issue of the Market Maker Shares are estimated to amount to approximately £500,000.
- 18.10 No person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, from the Group within the 12 months preceding the date of this document or has entered into any contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Group on or after Admission, fees totaling £10,000 or more or securities in the Group having a value of £10,000 or more calculated by reference to the Introduction Price or any other benefit with a value of £10,000 or more at the date of Admission.
- 18.11 The auditors of the Company since incorporation are Grant Thornton LLP whose address is 41-49 Agiou Nicolaou Street, Nimel's Court, Block C, Egkomi, PO Box 23907, 1687 Nicosia, Cyprus. The auditors of the Subsidiaries for the period covered by the financial information in Parts IV and V of this document were KPMG certified public accountants whose address is Elma House, 10 Mnasadou Street, 1065 Nicosia, Cyprus.
- 18.12 Save as disclosed in this document, as regards each financial year covered by the historical financial information contained in Part IV of this document, the Company has had no principal investments, there are no principal investments in progress and there are no principal future investments on which the Board has made a firm commitment.
- 18.13 Save as set out in this document, there are no significant trends in production, sales and inventory, or costs and selling prices since the end of the last financial year to the date of the registration document.

#### **19. Availability of documents for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (excluding public holidays) at the offices of Halliwells LLP, 1 Threadneedle Street, London EC2R 8AW from the date of this document until the fourteenth day after Admission:

- the Memorandum and Articles of Association of the Company; and
- the Deed Poll.

#### **20. Availability of this document**

Copies of this document will be available for collection only, free of charge, from the offices of Metropol Limited, Princes House, 38 Jermyn Street, London SW1Y 6DN during normal office hours on any weekday (public holidays excepted) for a period of not less than one month from the date of Admission.

6 October 2006





