Annual Report and Accounts 2010

Driving Forward

Russia's Leading Private Freight Rail Group

Contents

2010 at a glance

2010 highlights 1

Who we are 2

What we do 4

Chairman's statement 6

CEO's review 8

Strategy in action 10

Business review

Market review 13

Operational performance 16

Financial review 22

Principal risks and uncertainties 36

Selected operational information 38

Definitions 42

Presentation of financial and other information 44

Governance

Board of Directors 47

The Board committees 54

Risk management 56

Senior management 57

Corporate structure 58

Corporate responsibility 59

Appendices

1. Directors' report and consolidated financial statements for the year ended 31 December 2010
2. Directors' report and parent company financial statements for the year ended 31 December 2010
3. Key contacts and shareholders' information

SUMMARY OF PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All financial information presented in this Annual Report is derived from the consolidated financial statements of Globaltrans Investment PLC ("the Company" or, together with its subsidiaries, "Globaltrans" or "the Group") and has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS").

The Group's consolidated financial statements for the year ended 31 December 2010 are included in Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com).

Certain financial information which is derived from management accounts is marked in this Annual Report with an asterisk {*}.

In this Annual Report the Group has used the certain non-GAAP financial information (not recognised by EU IFRS or IFRS) as supplemental measures of the Group's operating performance.

Information (non-GAAP and operational measures) requiring additional explanation or defining is marked with initial capital letters and the explanations or definitions are provided on page 42 of this Annual Report.

Rounding adjustments have been made in calculating some of the financial and operational information included in this Annual Report. As the result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Market share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation ("Rosstat") as the denominator.

This Annual Report including its appendices may contain forward-looking statements regarding future events or the future financial performance of the Group. You can identify forward-looking statements by terms such as expect, believe, estimate, anticipate, intend, will, could, may, or might, the negative of such terms or other similar expressions. By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Group cautions you that forward-looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Group operates may differ materially from those described in or suggested by the forward-looking statements contained in these materials.

For a detailed description of presentation of financial and other information please see page 44 of this Annual Report.

2010 highlights

Continued to outperform the market

Freight Rail Turnover (in tonnes-km) grew year-on-year by

+20%

whilst overall Russian Freight Rail Turnover increased by 8%[1] year-on-year in 2010.

Market share increased to

5.3%

of the overall volume of freight transported by rail in Russia compared to 4.8%[2] in 2009. Strongest share gains were recorded in metallurgical cargoes[3] and coal[4].

Achieved significant organic expansion

Total Fleet increased year-on-year by

+36%

or 13,497 units to 50,714 units of rolling stock as of the end of 2010.

Owned Fleet increased year-on-year by

+18%

or 5,789 units to 38,173 units of rolling stock as of the end of 2010.

Delivered outstanding financial performance

Adjusted Revenue increased by

+32%

to USD 903.0* million compared to the previous year.

Adjusted EBITDA grew by

+37%

to USD 390.9* million compared to the previous year.

Retained strong financial position

Net Debt to Adjusted EBITDA ratio at

1.0x

as of the end of 2010 providing flexibility for capturing further growth.

Rouble denominated debt increased to

78%

of the Group's Total Debt as of the end of 2010 mitigating foreign exchange risk.

[1] According to Rosstat.
[2] Company estimations based on Rosstat data; calculated as a percentage of the overall freight rail transportation volume in Russia.
[3] Metallurgical cargoes include ferrous metals, scrap metal and ores. The Group's share of overall volumes of metallurgical cargoes transported by rail in Russia increased from 6.4% in 2009 to 9.1% in 2010; Company estimations based on Rosstat data.
[4] Coal includes thermal and coking coal. The Group's share of overall volumes of coal transported by rail in Russia increased from 2.0% in 2009 to 2.8% in 2010; Company estimations based on Rosstat data.

Who we are

Globaltrans is the leading private freight rail transportation group operating in Russia, the CIS countries and the Baltics. It was founded in 2004 and now operates a fleet of over 50,000 units, making it the largest[5] private freight rail transportation group in Russia based on the size of Owned Fleet. The Group's customers are large Russian blue-chip companies, operating mainly in the metals and mining, oil products and oil and construction industries. Globaltrans became the first freight rail company operating in Russia to float on an international stock exchange, when it listed[6] its GDRs on the Main Market of the London Stock Exchange in 2008.

Leading private freight rail operator

Our main business is the provision of freight rail transportation services. We focus on the transportation of key industrial freight including metallurgical cargoes, oil products, coal and various construction materials. Our railcar fleet is deployed across the entire territory of Russia and the CIS countries. In 2010 our Freight Rail Turnover reached 97.4 billion tonnes-km. Our strongest market positions are in metallurgical cargoes, oil products and oil with 9.1%[7] and 11.2%[8] of overall freight rail transportation volumes of respective cargoes in Russia.

Track record of growth

Since it was set up in 2004 Globaltrans has grown rapidly, quickly establishing itself as a market leader in the freight rail transportation sector. In the last five years alone, the Group has tripled the size of its fleet, becoming the largest private freight rail group in Russia by the size of Owned Fleet. Over the same period, our Adjusted EBITDA has increased fivefold. We continue to expand our business pursuing a strategy of opportunistic profitable growth.

Large, modern and balanced fleet

Our Total Fleet stands at 50,714 units (as of the end of 2010), three-quarters of which are owned[9] by the Group. The average age of the rolling stock within our Owned Fleet is 6.3 years[10], making it one of the most modern fleets in the industry. We aim to keep a balanced fleet split between gondola cars, representing 58% and rail tank cars making up 41% of the Group's Total Fleet. Universal gondola cars are used for transportation of various bulk cargoes while rail tank cars are predominantly used for transportation of oil products and oil.

Advanced logistics and fleet management systems

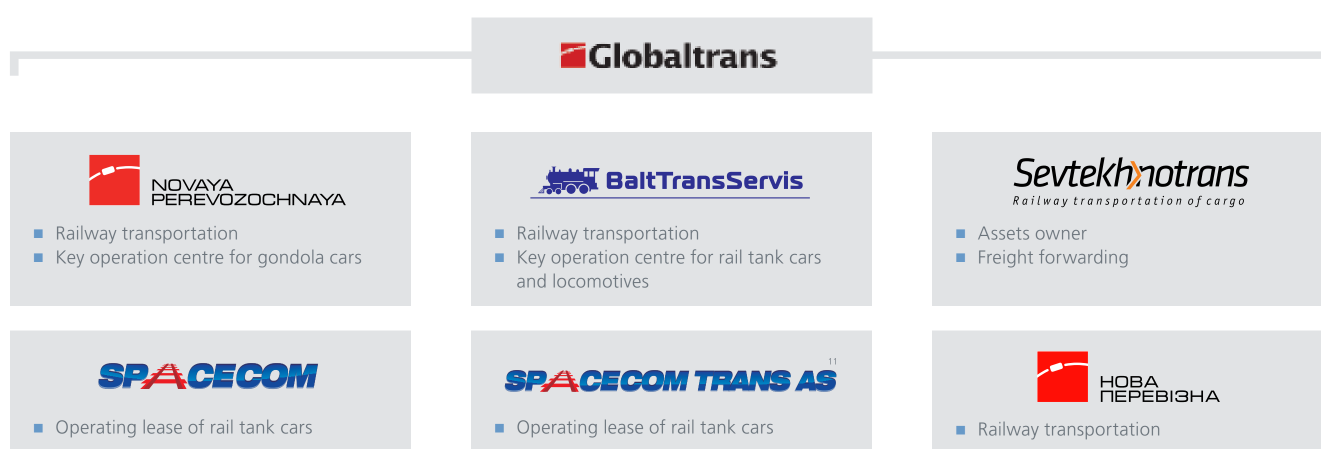
One of the cornerstones of our business model is our advanced destination and traffic management systems that enable Globaltrans to maximise fleet utilisation and decrease Empty Runs. Our logistics centre is equipped to manage the dispatch and routing of rolling stock on a 24/7 basis employing advanced information systems and providing our customers with effective, reliable and flexible transportation solutions.

Partner of choice for Russian blue-chip companies

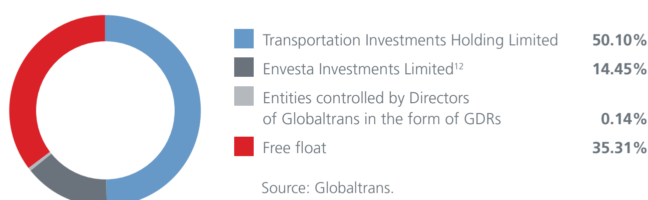
Our customers demand high levels of service and excellence of execution. We have a deserved reputation for delivering reliable service and effective transportation solutions. Our partners include many of Russia's most important blue-chip companies including leading industrial groups such as Evraz, Gazpromneft, Lukoil, Mechel, MMK, RITEK, Rosneft, Severstal, TNK-BP and Ural Steel. We seek to establish long-term partnerships with our customers, based on mutual benefit and trust. We believe that our service offering differs from those of our competitors because we offer our customers a combination of superior operational capabilities coupled with one of largest and modern railcar fleets available.

[5] Based on publicly available sources (RZD Partner #15 (187) as of August 2010).
[6] Global depositary receipts ("GDRs") of Globaltrans Investment PLC representing one ordinary share each are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR.
[7] Metallurgical cargoes include ferrous metals, scrap metal and ores. Company estimations based on Rosstat data; calculated as a percentage of the overall volumes of metallurgical cargoes transported by rail in Russia in 2010.
[8] Company estimations based on Rosstat data; calculated as a percentage of the overall volumes of oil products and oil transported by rail in Russia in 2010.
[9] Including rolling stock leased under finance leases.
[10] At the end of 2010.

Globaltrans is the leading private freight rail transportation group operating in Russia, the CIS countries and the Baltics.



Ownership structure, as of the end of 2010



Source: Globaltrans.

Transportation Investments Holding Limited (TIHL) is one of the largest privately-owned transportation and infrastructure groups in Russia, the CIS and the Baltic Region with strategic interests in rail transportation, port operations and infrastructure development. TIHL carries on business under the brand name of N-Trans. Nikita Mishin, Konstantin Nikolaev and Andrey Filatov jointly control TIHL.

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

Globaltrans' key historical financial and operational information, 2005 – 2010

	2005	2006	2007[13]	2008[13]	2009	2010	CAGR
Adjusted Revenue (USD mln)	318.1*	305.3*	413.4*	779.4*	685.3*	903.0*	23%
Including Net Revenue from Operation of Rolling Stock (USD mln)	230.8*	276.2*	352.8*	699.8*	618.5*	830.0*	29%
Adjusted EBITDA (USD mln)	79.8*	82.0*	175.7*	345.2*	284.5*	390.9*	37%
Adjusted EBITDA Margin	25%*	27%*	43%*	44%*	42%*	43%*	–
Net Debt to Adjusted EBITDA (at year end)	4.5x*	4.7x*	2.9x*	1.0x*	1.0x*	1.0x*	–
Freight Rail Turnover (billion tonnes-km)	NA	NA	61.0	78.5	80.9	97.4	–
Total Fleet (at year end)	17,365	21,446	25,494	35,284	37,217	50,714	24%
Including Owned Fleet (at year end)	11,420	14,319	21,590	30,824	32,384	38,173	27%

[11] Formerly AS Intopex Trans.
[12] Including GDRs owned by EIL.
[13] In accordance with the Group's accounting policies the acquisitions of AS Spacecom and AS Spacecom Trans ("Estonian subsidiaries", acquired in December 2008) and LLC BaltTransServis ("BTS", acquired in December 2009) have been accounted as a common control transactions using the predecessor basis of accounting. Therefore, the Group's consolidated financial statements, certain non-GAAP financial and operational information reported for year ended 31 December 2007 has been adjusted (from the Group's previously published for this period) to reflect the transfer of, and consolidation of, Estonian subsidiaries; and for year ended 31 December 2008 has been adjusted (from the Group's previously published for this period) to reflect the transfer of, and consolidation of, BTS.

What we do

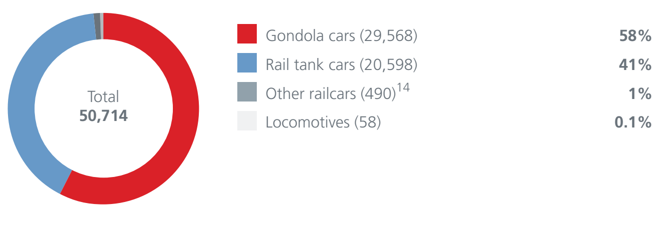
Globaltrans' illustrative transportation routes – Metallurgical cargoes

Our main business is the provision of freight rail transportation services. We focus on the transportation of key industrial freight including metallurgical cargoes, oil products, coal and various construction materials. Our railcar fleet is deployed across the entire territory of Russia and the CIS countries.

Gondola car

Rail tank car

Total Fleet by type of rolling stock, as at the end of 2010



Locomotive

[14] Other railcars including 370 hopper cars and 120 flat cars.

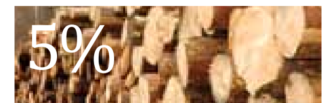
Our logistics centre is equipped to manage the dispatch and routing of rolling stock on a 24/7 basis employing the most advanced information systems and providing our customers with effective, reliable and flexible transportation solutions.

Globaltrans' Freight Rail Turnover by type of cargo, 2010

Metallurgical cargoes, including ferrous metals, scrap metal and iron ore

Oil products and oil

Thermal and coking coal



Other cargoes

Construction materials, including cement

Globaltrans' illustrative transportation routes – Oil products and oil

2010 at a glance
Business Review
Governance
Appendices

Chairman's statement

I am delighted to report that 2010 has proved to be a year of impressive growth for our business. After suffering a severe contraction in 2009, the Russian economy bounced back strongly in 2010, growing by an impressive 4%[15]. Strong global demand for Russian commodities and an improving domestic economy were the main factors behind the recovery. And as the economy shifted into higher gear, the freight rail sector, as the dominant carrier of goods and commodities in Russia, also experienced a strong rally.

At Globaltrans, we were quick to recognise the change in market conditions and the opportunities that this presented for our business. Using our platform as Russia's largest[16] private freight rail group, we were indeed a partner of choice for our customers. This enabled us to significantly outperform the market – as we did in 2009[17]. Consequently, the Group has had an excellent 2010, reporting sharp increases in revenues and profits, and delivering strong market share gains in key segments.

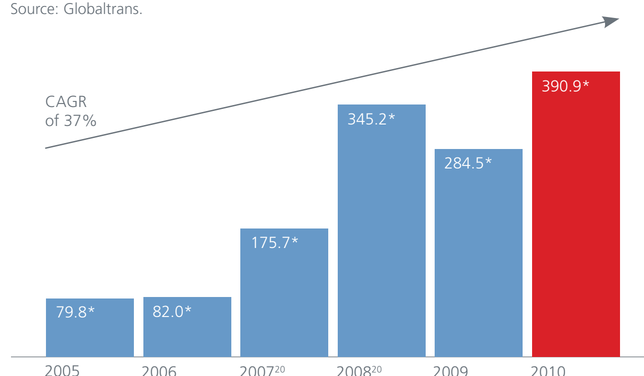
Globaltrans achieved a 20% increase in Freight Rail Turnover against an overall Russian freight rail market where turnover grew by 8%[18]. The Group's Adjusted EBITDA increased by 37% to USD 390.9* million and earnings per share increased by 51% to USD 1.12. In addition, we grew the size of our Total Fleet by more than one third. Globaltrans' shareholders were rewarded for the excellent performance in 2010, enjoying a total shareholder return[19] of 65%*.

That the Group produced such an outstanding performance is a testament to the quality of our strategy, our operations, and our people, all of whom have worked to deliver outstanding service to our customers.

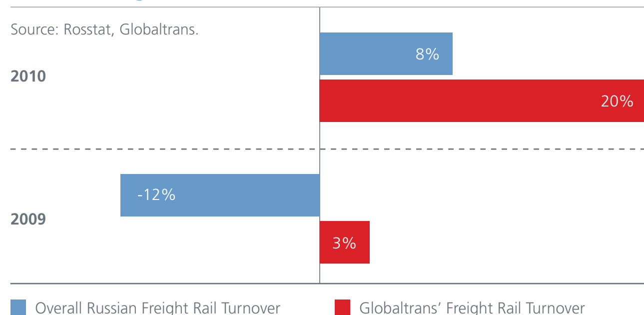
By strictly adhering to our principles and strategy, in 2010 we again demonstrated our credentials as a growth company, one capable of producing growth through all phases of the economic cycle.

The Group continued to effectively implement the three core components of its business strategy: pursuing expansion when market conditions were right, maintaining a balanced fleet and ensuring operating efficiency. Expanding our fleet when conditions are favourable is a key component of our growth agenda. Our bold decision to invest in fleet expansion at the close of 2009, when prices for rolling stock were particularly depressed, rewarded us in 2010. It meant that, as the market recovered, we had the capacity in place

Over the last 5 years the Group's Adjusted EBITDA increased fivefold (USD million)



In 2010 Globaltrans continued to outperform overall Russian freight rail market



Total shareholder return[19] in 2010

65%*

Reflecting the strong performance of the Group in 2010.

Globaltrans has had an outstanding year, capping a period of remarkable performance for the Group. We have shown that by adhering to our strategy we can deliver growth in both good and bad markets.

Alexander Eliseev
Chairman of the Board

to satisfy the surge in customer demand for our services. Our policy of maintaining a balanced fleet, weighted between rail tank cars and gondola cars, again proved its value during the year. The performance of LLC BaltTransServis ("BTS"), an acquisition we completed at the end of 2009, is a case in point. BTS delivered a strong performance in 2010 and, as it is exposed to the relatively stable oil products trans-shipment market, contributed to the quality of earnings of the whole Group.

A focus on efficiency and continuous improvement in productivity is also a hallmark of Globaltrans. The priority for 2010 was on improving our Empty Run Ratio outcomes, and I am pleased to say considerable progress has been made in this area, helped by more benign markets. Whilst it continues to be a work in progress, we did make considerable headway particularly with the Empty Run Ratio for gondola cars, which improved to 42% in 2010 from 46% in the previous year.

Overlaying all this activity has been a continued commitment to our customers. In an industry not noted for its reliability and customer service, Globaltrans has built its reputation by providing its customers with a fast, reliable and responsive service. It is this customer-centric approach that we believe differentiates Globaltrans from the competition. We continued to invest in our customer relations in 2010, focusing on improving the value we provide to them, upgrading our fleet proposition and investing in our people and information technologies.

Rail dominates freight transportation in Russia and therefore it is axiomatic for our economic development that the country has a modern, competitive rail industry. Recognising this, the Government in 2010 took further important steps on the path to greater deregulation of the rail industry. The highest profile event involved OAO Russian Railways ("RZD") spinning off the majority of its commercial fleet into a new company, OAO Freight Two. This is an important development for the whole sector, as it means all railcar operators will now be subject to market-driven pricing. We expect the pace of reform to continue in 2011, and indeed since the year end, the Government has already announced a fresh set of initiatives, for instance in the locomotive sector, that offer further potential avenues for growth.

As Globaltrans prepares to face new challenges, I want to reflect briefly on the Group's achievements in the last seven years. I am particularly proud of the part that Globaltrans has played in the transformation of our industry during this period. When we founded Globaltrans, we had a clear vision of what we wanted to achieve: to make Globaltrans the leading private freight rail group in Russia and the partner of choice for our customers and, in so doing, create long-term value for shareholders. This vision has guided the long-term direction of the Group ever since. It has helped establish Globaltrans as a leading innovator in our industry, pioneering the development of sophisticated fleet management logistics, becoming the first freight rail company operating in Russia to be listed on an international stock exchange, and leading the call for further liberalisation and modernisation of the industry. By aiming high, we have delivered sustained value to our shareholders. In the last five years alone, the Group has tripled the size of its Total Fleet. Over the same period, our Adjusted EBITDA has increased fivefold. By any measure, the Group's first seven years have been a period of outstanding achievements, something we are justly proud of.

The Board of Directors recommends, subject to final approval by shareholders at the general meeting, a payment of dividend in relation to the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of USD 58.5 million. The resolution will be considered at the Annual General Meeting to be held on May 13, 2011.

Once again, professionalism and commitment of our employees is a source of great pride. On behalf of my colleagues on the Board, I would like to express our appreciation for the contribution they have made to Globaltrans' success in 2010.

In summary, Globaltrans has had an outstanding year, capping a period of remarkable performance for the Group. We have shown that by adhering to our strategy we can deliver growth in both good and bad markets. And with its robust business model, strong assets and great people, Globaltrans is well positioned to continue the record of growth in 2011.

[15] Results of social-economic development of Russian Federation in 2010 (February 2011, www.economy.gov.ru).
[16] By the size of Owned Fleet; based on the publicly available sources (RZD Partner #15 (187) as of August 2010).
[17] In 2009 Globaltrans' Freight Rail Turnover grew year-on-year by 3% compared to the overall Russian market Freight Rail Turnover fell by 12% according to Rosstat.
[18] According to Rosstat.
[19] Total shareholder return is calculated as "stock close price at the end of the period" less "stock close price at the beginning of the period" plus "dividends paid" and then divided by "stock close price at the beginning of the period".
[20] The Group's Adjusted EBITDA reported for year ended 31 December 2007 has been adjusted (from the Group's previously published for this period) to reflect the transfer of, and consolidation of, AS Spacecom and AS Spacecom Trans (acquired in December 2008); and for year ended 31 December 2008 has been adjusted (from the Group's previously published for this period) to reflect the transfer of, and consolidation of, BTS (acquired in December 2009).

CEO's review

In 2010, Globaltrans delivered very strong operating results. At the start of the year, the Russian economy was sending out mixed signals, creating uncertainty about its prospects for the year. However, this uncertainty proved to be temporary: indeed, the economy revived in emphatic fashion during the course of 2010. The Russian freight rail sector too posted strong growth, with overall Freight Rail Turnover up 8%[21] year-on-year. The trend was particularly pronounced over the autumn period when monthly Freight Rail Turnover rebounded close to pre-crisis levels of 2008.

Globaltrans participated strongly in the sector's revival, outperforming the broader Russian market, winning market share and capturing a significant part of the market volume growth. On the back of strong operational performances across all our business segments, we were able to deliver an excellent set of financial results:

- Increased Freight Rail Turnover combined with firm pricing resulted in robust year-on-year growth in Adjusted Revenue of 32% to USD 903.0* million;
- Our focus on cost control delivered significant underlying growth in Adjusted EBITDA of 37% to USD 390.9* million; underlying profitability remained robust with our Adjusted EBITDA Margin climbing to 43%* compared to 42%* in the previous year;
- We continued to manage our finances prudently, retaining a strong balance sheet with modest financial gearing (Net Debt to Adjusted EBITDA ratio at 1.0x* as of the end of 2010), which provides us with a strong platform to pursue further growth opportunities.

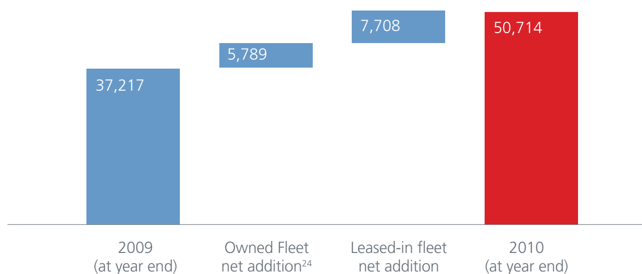
In broad terms, our operational performance was excellent as we continued to outperform the market at the recovery stage as well. The Group's Freight Rail Turnover increased year-on-year by 20% to 97.4 billion tonnes-km, while Transportation Volume grew by 21% to 63.8 million tonnes. We made substantial inroads across the majority of our markets, winning additional market share. Thus, in metallurgical cargoes the Group's market share jumped from 6.4%[22] in 2009 to 9.1%[22] in 2010.

At the operational level, management focused on improving the Empty Run Ratio. In this area, our efforts were supported by the expanding economy, which boosted transportation activity. As a result, the Empty Run Ratio for gondola cars throughout 2010 averaged a very creditable 42% compared to 46% in the previous year. Any further improvement will depend on factors, which essentially remain beyond our control, such as growth in construction activity and the performance of the SME sector.

I am further pleased to report that our investments in business expansion also produced strong returns. BTS, which we successfully integrated into our business portfolio during 2010 generated Adjusted EBITDA of USD 119.9* million.

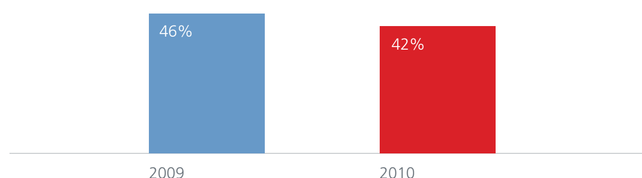
Total Fleet expanded by 36% over 2010 resulting from organic growth and increase in leased-in fleet

Source: Globaltrans.



Empty Run Ratio for gondola cars improved to 42% in 2010 supported by economic recovery

Source: Globaltrans.



Market share increased to

5.3% of the overall volume of freight transported by rail in Russia compared to 4.8%[23] in 2009. Strongest share gains were recorded in metallurgical cargoes[22] and coal[26].

Globaltrans participated strongly in the sector's revival, outperforming the broader Russian market, winning market share and capturing a significant part of the market volume growth.

Sergey Maltsev
Chief Executive Officer

In 2010 we took delivery of the remaining balance of 6,500 units contracted at the close of 2009. The bold acquisition decision at the close of 2009 substantially increased our Owned Fleet in 2010, and put us in a great position. Importantly, we chose our timing well, thus obtaining an average unit price substantially below current market levels. In addition, the prompt availability of the new rolling stock for operational use ensured Globaltrans had the capacity to meet strong demand for our services in the growing market. Taking advantage of the robust market, we also substantially expanded the fleet of leased-in rolling stock, which grew by 159% or 7,708 units.

Underpinning the success of our opportunistic, return-oriented growth strategy is our disciplined approach to investments. In 2010, our approach again proved to be very successful: we made investments at the end of 2009 at the right price, which helped Globaltrans to secure long-term competitive advantage and growth in shareholder value. In the second half of 2010 we continued to pursue our growth strategy, which has proved to be effective. To unlock the potential of robust industry fundamentals, we contracted and took delivery of an additional 800 units by the end of 2010 and a further 700 units by the end of February 2011. We plan to place additional orders in 2011 to meet our acquisition target of 5,000 new railcars by the end of the coming year. In 2010, our Total Fleet expanded organically by 36% to 50,714 units as of the year end, further cementing our position as the leading private freight rail transportation group in Russia. Our total investment in rolling stock in 2010 amounted to USD 286.2 million[25].

Globaltrans has a well-earned reputation as the industry leader in setting standards of operational excellence and customer service. We invest much in developing long-term partnerships with our customers. Understanding our customers' needs, we manage to develop the most cost-effective transportation solutions which, combined with our integration into our customers' transportation chains, secure additional competitive advantages. Our advanced destination management systems offer added value to our customers, as we are able to quickly reroute our traffic flows thus enhancing the reliability and responsiveness of our service. Customer service will come to the forefront of our agenda in 2011 after the full deregulation of operators' business.

In 2010, we took further action to reduce the currency exposure of our debt portfolio. We successfully launched a debut Rouble-denominated 5 year non-convertible bonds issue, which was very well received by investors and which, among other measures, enabled us to substitute the majority of our US Dollar denominated debt with Rouble debt. As a result, the share of Rouble denominated borrowings in our debt portfolio increased to 78% as of the end of 2010. This is a very positive outcome as it helped us to match the Group's currency profile.

I would like to reiterate the Chairman's comments about the quality and professionalism of our people. We invest substantially in the development of our personnel and this delivers great value. We managed to outperform the market during the downturn in 2009 and in the recovery phase of 2010. I believe we have built one of the best teams in the industry and I wish to join our Chairman and thank all those who work for Globaltrans for their commitment and hard work in the past year.

As we consider the prospects for 2011 and beyond, we know that we will face challenges but we are confident we have the right business model and strategy to deal with what lies ahead. In 2011, Russian GDP growth is projected to consolidate further and we therefore expect our industry fundamentals to continue to reassert themselves. Our trading performance so far in 2011 tends to support this view. We are well prepared for such an eventuality and have configured our business accordingly. Specifically, in 2011 we will fully benefit from the operational deployment of new rolling stock delivered in 2010. We will continue to invest, and we expect to meet the acquisition target of 5,000 new railcars by the end of the coming year with 1,500 units already delivered as of the end of February 2011. Looking further out, we also see opportunities to grow our business in the medium term. The recent publication by the Government of its strategic rail reform agenda for the next five years, through to 2015, raises the prospect of a partial liberalisation of locomotive traction services. This is an important sector, one where Globaltrans has a strong presence through our subsidiary BTS, so we are actively exploring our options with a view to growing our locomotive presence.

The combination of growing markets and continued deregulation provides in our view a powerful investment case for expanding our business. Last year, we successfully pursued opportunistic growth and we are well positioned to make further progress in the coming year.

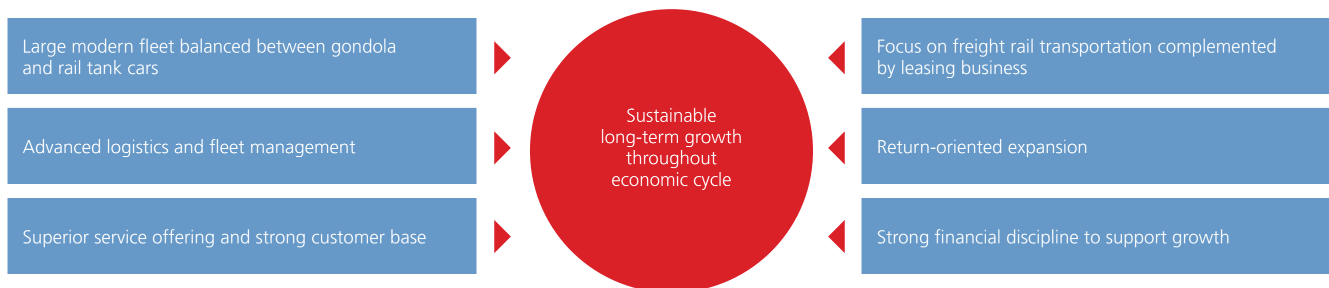
[21] According to Rosstat.
[22] Metallurgical cargoes include ferrous metals, scrap metal and ores. The Group's share of overall volumes of metallurgical cargoes transported by rail in Russia increased from 6.4% in 2009 to 9.1% in 2010; Company estimations based on Rosstat data.
[23] Company estimations based on Rosstat data; calculated as a percentage of the overall Russian freight rail transportation volume in Russia.
[24] Owned Fleet net addition is calculated as the balance between 5,797 units delivered and 8 units disposed during the reporting period.
[25] Additions of rolling stock in 2010 as well capitalised repairs (including rolling stock leased under finance leases).
[26] Coal includes thermal and coking coal. The Group's share of overall volumes of coal transported by rail in Russia increased from 2.0% in 2009 to 2.8% in 2010; Company estimations based on Rosstat data.

Strategy in action

From its inception, Globaltrans has had an ambitious vision – to be Russia's leading private freight rail transportation group and partner of choice for customers.

For us 'leading' means not only having one of the largest and most modern fleets in the industry but moreover being at the forefront of innovation and change. And by 'partner of choice' we mean that by focusing on delivering superior value to customers, by anticipating their requirements, and providing them with solutions for their individual transport needs, we win their confidence and they choose to partner with us because they recognise the value we bring.

Our strategy aims to deliver sustainable long-term growth through the economic cycle and so deliver attractive returns to our shareholders. By executing our strategy we focus on the following aspects of our business model:



Over the last seven years, we have single-mindedly followed our strategy, in pursuit of our long-term vision for the Group. This approach has been very successful, and has enabled us to navigate a rapidly changing industry and market environment during this time. The very strong growth in revenues, profits, and margins achieved by Globaltrans over the period since it was founded, indicate that the strategy is the right one and we continue to work hard on delivering it.

Progress in 2010

The Group employs a number of performance indicators to monitor the Group's performance and measure progress against overall strategy. In 2010, we continued meet our strategic goals. In the table opposite we summarise our progress against our strategy components illustrated by our key performance indicators (KPIs).

Our strategy aims to deliver sustainable long-term growth through the economic cycle and so deliver attractive returns to our shareholders.

Strategy component	Description	Delivered in 2010	Priorities for 2011
Return-oriented expansion	■ Increase the size of the railcar fleet when market conditions are favourable, particularly in periods when assets are reasonably priced and industry fundamentals are strong. ■ Carefully evaluate expansion opportunities to extract maximum value from acquired assets and maintain appropriate rates of return. ■ Increase the leased-in fleet in periods of strong market demand thus gaining market share and establishing a platform for new rolling stock additions.	■ 36% or 13,497 unit growth in Total Fleet year-on-year. ▪ Owned Fleet grew 18% or 5,789 units year-on-year reaching 38,173 units or 75% of Total Fleet at the year end. ▪ Leased-in fleet increased by 159% or 7,708 units year-on-year to 12,541 units at the year end in response to strong second half market conditions. ■ Average railcar unit price delivered over 2010 was USD 47.2 thousand[27] (excluding VAT) a substantial discount to current price levels.	■ Achieve the acquisition target of adding 5,000 new railcars by the end of 2011, with 1,500 units already delivered in 2010 – 2011 as of the end of February 2011. ■ Continue to review value accretive M&A opportunities. ■ Investigate opportunities presented by proposed liberalisation of the locomotive traction services.
Balanced fleet and focus on freight rail transportation	■ Ensure that the fleet composition strikes the right commercial balance between rail tank cars and universal gondola cars. ■ Focus service offering on freight rail transportation in order to extract maximum value from effective fleet management.	■ Following the substantial investment into new gondola cars the share of gondola cars increased to 58% of the Total Fleet from 48% at the end of 2009. ■ Continued focus on freight rail transportation business accounting for 92% of Adjusted Revenue compared to 90% in 2009.	■ Continue universal gondola cars investment programme to strengthen Group's exposure to the growing bulk cargo market, along with selective acquisitions of rail tank cars.
Efficient operations	■ Ensure sustainability of margin through effective margin management and cost control. ■ Emphasise route optimisation and fleet management to reduce Empty Runs and drive profitability.	■ Adjusted EBITDA Margin climbed to 43%* compared to 42%* in the previous year. ■ Empty Run Ratio on gondola cars improved to 42% compared to 46% in 2009. ■ An additional 5,033 units of rolling stock of the Group's Owned Fleet were successfully transferred to mileage-based repairs. As at the year end, about 70% of the Group's Owned Fleet was being maintained on a mileage-based schedule.	■ Continue focusing on effective fleet management: ▪ Increase block train operations increasing so railcar turnover. ▪ Further expansion into CIS markets (Ukraine, Kazakhstan, and Belarus). ▪ Continue focusing on improving Empty Runs. ▪ Transfer more railcars to mileage-based repair and maintenance schedule.

[27] Excluding cost of 1 locomotive acquired in 2010.

Business review

Directors' responsibility

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

By order of the Board

Sergey Maltsev
Director and Chief Executive Officer

Mikhail Loganov
Director

Market review

Key industry features

Russia's freight rail sector has a number of characteristics that make it unique, specifically its dominance over the other means of freight transport; its close correlation to industrial production and the fact of ongoing market liberalisation.

Rail forms the backbone of freight transportation in Russia

- Dominant position accounting for 85%[28] of overall Russian freight turnover in 2010 excluding pipeline traffic.
- Second largest network in the world by length and third largest by Freight Rail Turnover[29].

Correlation between rail freight performance and industrial output

- Demand for freight rail transportation services is tightly correlated to level of industrial production (in the last 5 years correlation was over 90%[30]).
- Overall Russian Freight Rail Turnover increased year-on-year by 8%[31] in 2010, reaching 95%[31] of the pre-downturn level of 2008.

Reform of rail industry to continue

- Non-discriminatory access of railcar operators to rail infrastructure along with unregulated pricing for all railcar operators.
- More than 47%[32] of Russian railcar fleet is privately owned.
- Further industry liberalisation envisages that competition for locomotive traction services will be introduced for up to 10% of the overall Russian Freight Rail Turnover by 2015[33].

An ageing industry asset base

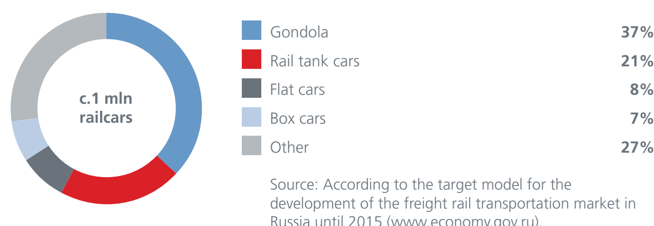
- Significant part of railcar and locomotive fleets owned by RZD and its subsidiaries are old and require replacement in the coming years.

Russian freight turnover by means of transport (excluding pipeline traffic), 2010

Railway	85%
Road	8%
Marine	4%
Inland waterway	2%
Air	0.2%

Source: Rosstat; Company calculations.

Total Russian fleet by type of railcars, as of 1 Oct 2010



Gondola	37%
Rail tank cars	21%
Flat cars	8%
Box cars	7%
Other	27%

Source: According to the target model for the development of the freight rail transportation market in Russia until 2015 (www.economy.gov.ru).

Total Russian fleet of railcars by ownership, as of 1 Oct 2010

Private owners	47%
RZD and its subsidiaries (Freight One, Freight Two, etc)	53%

Source: According to the target model for the development of the freight rail transportation market in Russia until 2015 (www.economy.gov.ru).

[28] According to Rosstat; Company calculations.
[29] Annual report of OAO Russian Railways for 2008.
[30] Correlation ratio is calculated between Russian Industrial Production Index and overall Russian Freight Rail Turnover as variables, on a monthly basis for a period of last 5 years; Company calculations based on Rosstat data.
[31] According to Rosstat.
[32] As of 1 October 2010; according to the target model for the development of the freight rail transportation market in Russia until 2015 (www.economy.gov.ru).
[33] According to the target model for the development of the freight rail transportation market in Russia until 2015 (www.economy.gov.ru).

Market review continued

Market update: Strong recovery over 2010

The Russian economy demonstrated steady recovery in 2010 with GDP increasing by 4%[34] year-on-year. The rebound in the economy began in 2009, led by a recovery of key commodity industries, and later supported by a pick-up in the domestic demand. Manufacturing led the revival with the industrial production index increasing by 8%[34] in 2010.

As the demand for freight rail transportation is tightly correlated to industrial production, the freight rail sector was among the first to emerge from recession in 2009, a trend which accelerated over the course of 2010. Overall Russian Freight Rail Turnover increased by 8%[35] in 2010 compared to the previous year, achieving 95%[35] of the Freight Rail Turnover of 2008. On a monthly basis the recovery was even more pronounced with monthly Freight Rail Turnover volumes in September and October almost equal to the respective monthly volumes in 2008.

Metallurgical cargoes

Metallurgical cargoes (including ferrous metals, scrap metal and ores) accounted for 18%[35] of overall Russian freight rail transportation volumes in 2010. For Globaltrans, metallurgical cargoes is the largest cargo segment and contributed 43% of the Group's total Freight Rail Turnover in 2010.

Overall Russian freight rail transportation volumes of metallurgical cargoes showed strong year-on-year growth, increasing by 10%[35] in 2010 compared to the previous year, though still some 4%[35] below the pre-crisis levels of 2008. The recovery was driven by increased production levels, which saw the metallurgical production index rising 12%[34] year-on-year in 2010. This trend was supported by customer inventory restocking, robust domestic demand, and favourable global pricing trends.

Within the cargo segment, the growth mix varied: ferrous metals increased year-on-year by 13%[35], scrap metal by 26%[35] and ores by 7%[35].

Oil products and oil

Oil products and oil accounted for 21%[35] of the overall freight rail transportation volumes in Russia in 2010. It is the second largest cargo segment for Globaltrans, contributing 31% of the Group's total Freight Rail Turnover in 2010. Rail is the key transport mode for refined products, including heavy fuel oil. In 2010 freight rail transportation of oil products and oil exhibited a robust growth with volumes rising by 11%[35] compared to 2009 exceeding the 2008 level by 9%[35]. Such a performance was primarily driven by the commencement of oil shipments from the Eastern Siberia-Pacific Ocean oil pipeline through the Skovorodino-Kozmino rail link and increased production of oil products[34].

Coal

Coal (including thermal and coking) is the largest segment of the Russia's freight rail transportation industry, equivalent to 25%[35] of the overall freight rail transportation volumes in Russia in 2010. Coal is the third largest cargo segment for Globaltrans accounting for 18% of the Group's total Freight Rail Turnover in 2010.

Overall Russian freight rail transportation volumes of coal were up by 5%[35] in 2010 compared to the previous year though still some way below (3%[35]) the annual volumes of 2008. Again volume growth was driven by a general pick-up in demand from both domestic and international markets. Coal production in Russia over the same period increased by 5%[34].

Construction materials

In 2010, construction materials (including cement) accounted for 15%[35] of the total volume of freight transported by rail in Russia. This sector accounted for only 3% of the Globaltrans' total Freight Rail Turnover in 2010. Due to geographic dispersion of construction sites, it is one of the key cargoes that enable optimising return routes and reducing Empty Runs.

The construction materials sector was badly affected by the recession which led to a severe slump in construction activity in Russia. In 2010, there were signs of recovery in construction activity supported by growth in bank lending to the sector and the commencement of a number of large-scale State-backed infrastructure projects. And whilst transport volumes of construction materials increased year-on-year by 12%[35] in 2010, the figure remains well below (25%[35]) the levels of 2008.

[34] Results of social-economic development of Russian Federation in 2010 (February 2011, www.economy.gov.ru).
[35] According to Rosstat; Company calculations.

The freight rail sector was among the first to emerge from recession in 2009, a trend which accelerated over the course of 2010.

Reform: Rail industry continues to reshape

In 2010 the industry continued its path to modernisation:

Liberalisation of the railcar segment advances further

At the end of September 2010, OAO Freight Two (a 100% owned subsidiary of RZD) was set up, received part of RZD's commercial freight railcar fleet and began its operations. Current plans envisage that the bulk of RZD's remaining commercial freight railcars will be transferred over to Freight Two by the end of the third quarter of 2011.

This represents a key milestone for the sector as the full establishment of Freight Two marks the end of RZD's direct involvement in freight railcars – the majority of its commercial fleet will be spun off into its commercial subsidiaries (Freight One, Freight Two, etc.). Commercial subsidiaries of RZD operate on the basis of market pricing.

Further steps in industry liberalisation

In January 2011 the Government approved the target model for the development of the freight rail transportation market through to 2015, which envisages the key avenues for further market deregulation and structural transformation.

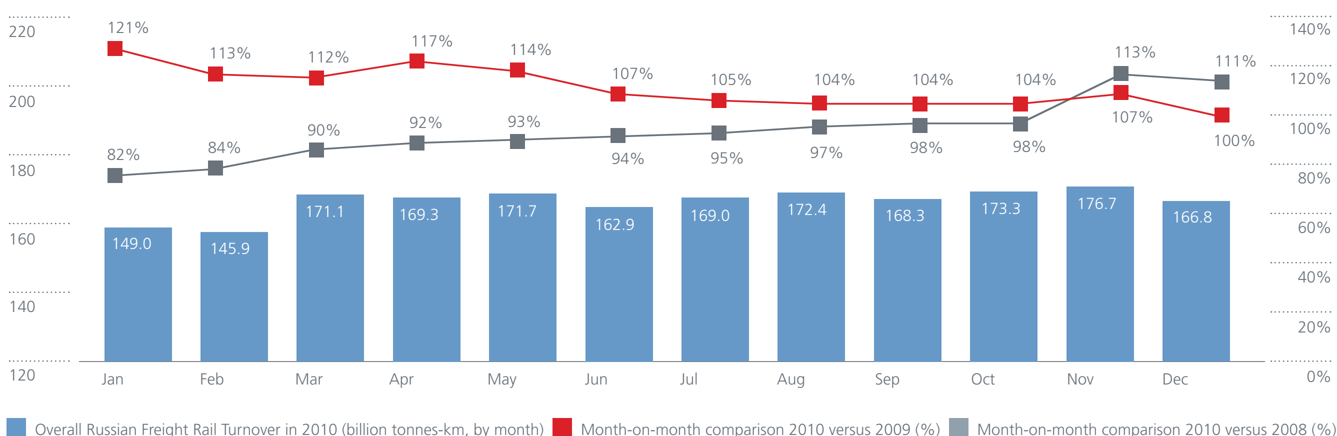
- Liberalisation of locomotive traction services. A pilot phase for private locomotive operations is to be introduced allowing competition for up to 10% of the overall Russian Freight Rail Turnover by 2015. Regulatory details and tariff decisions in this respect are expected to be announced by the end of 2011.
- Unification of Empty Run tariff. The other important initiative is unification of Empty Run tariff across all cargo classes resulting in a single tariff charged by RZD for Empty Run of railcars which will no longer depend on cargo carried on the (preceding) loaded run. Regulatory details and tariff decisions in this respect are expected to be introduced by the end of 2011.

Overall Russian freight rail transportation volume type of cargo, 2010

Cargo type	Share
Coal (thermal and coking)	25%
Oil products and oil	21%
Metallurgical cargoes (including ferrous metals, scrap metal and ores)	18%
Construction materials (including cement)	15%
Other cargoes	21%

Source: Rosstat; Company calculations.

Overall Russian Freight Rail Turnover in 2010 versus 2009 and 2008



Operational performance

Freight rail transportation business

Our core service offering is freight rail transportation, which accounted for 92% of the Group's Adjusted Revenue in 2010. In 2010 we continued the expansion of our freight rail transportation business, increasing the size of our fleet and introducing new routes and logistics schemes.

Strong market outperformance and significant market share gains

In 2010 Globaltrans outperformed the overall Russian freight rail transportation market. The Group's Freight Rail Turnover grew 20% year-on-year versus an overall market where Freight Rail Turnover increased by 8%[36]. A similar pattern of outperformance was recorded in 2009 when against an overall Russian market decrease of 12%[36] Globaltrans managed to increase its Freight rail Turnover by 3%.

The strong performance helped the Group to strengthen its overall share of the Russian freight rail volumes from 4.8%[37] in 2009 to 5.3%[37] in 2010. Globaltrans achieved market share gains in a number of key operating segments. Most significantly, the Group strengthened its market position in its major cargo segment, metallurgical cargoes, taking a 9.1%[37] share of the total market compared to 6.4%[37] in 2009. At an individual cargo category, Globaltrans recorded share gains in all three categories: ferrous metals where its share grew from 14.4%[37] to 15.6%[37], scrap metal where it almost doubled from 7.8%[37] to 15.1%[37] and iron ore where it grew from 1.8%[37] to 4.4%[37].

In the oil products and oil sector, Globaltrans' market share decreased from 13.0%[37] in 2009 to 11.2%[37] in 2010 on the back of an overall Russian market for rail transportation of oil products and oil that increased by 11%[36] in 2010. This was driven primarily by the commencement of oil shipments from the Eastern Siberia-Pacific Ocean oil pipeline through the Skovorodino-Kozmino rail link and increased production of oil products[38].

Taking advantage of buoyant market conditions for coal, Globaltrans significantly increased its coal operations, resulting in strong market share gains for the Group, up from 2.0%[37] in 2009 to 2.8%[37] in 2010.

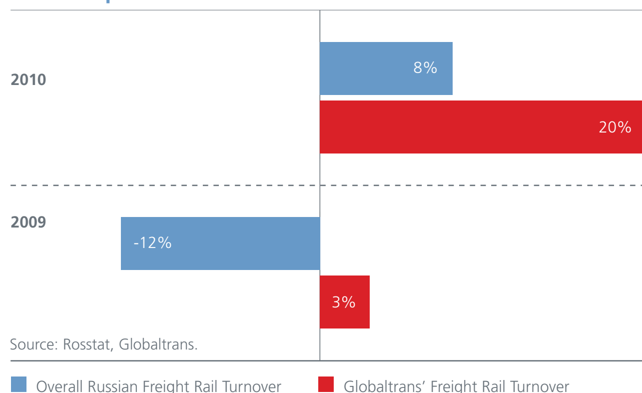
In the construction sector (including cement) the Group's market share increased slightly to 1.7%[37] in 2010 compared to 1.4%[37] in 2009.

2010 Performance highlights of freight rail transportation business

	2009	2010	Change
Freight Rail Turnover (billion tonnes-km)	80.9	97.4	20%
Transportation Volume (million tonnes)	52.8	63.8	21%
Market share of overall Russian freight rail volumes[37]	4.8%	5.3%	–
Average Rolling Stock Operated (units)	28,406	36,793	30%
Average Number of Loaded Trips per Railcar	30.4	29.3	-4%
Average Distance of Loaded Trip (km)	1,537.8	1,504.0	-2%
Average Price per Trip (USD)	716.9	770.4	7%
Empty Run Ratio for gondola cars	46%	42%	–

Source: Globaltrans

Globaltrans' performance against overall Russian freight rail transportation market



Source: Rosstat, Globaltrans.

[36] According to Rosstat.
[37] Company estimations based on Rosstat data; calculated as a percentage of the overall freight rail transportation volume in Russia; or as a percentage of the overall Russian freight rail transportation volume of respective cargoes.
[38] Results of social-economic development of Russian Federation in 2010 (February 2011, www.economy.gov.ru).

In 2010 Globaltrans outperformed the overall Russian freight rail transportation market. The Group's Freight Rail Turnover grew 20% year-on-year versus an overall market where Freight Rail Turnover increased by 8%.

Significant increase in Freight Rail Turnover

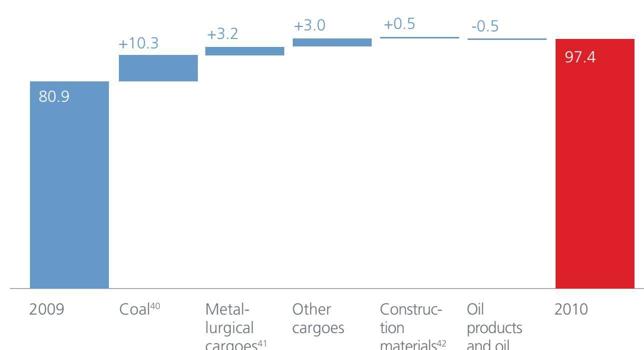
Globaltrans' Freight Rail Turnover increased year-on-year by 20% or 16.6 billion tonnes-km to 97.4 billion tonnes-km in 2010.

The changes by cargo segments were the following:

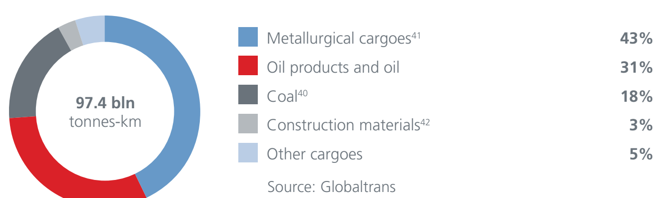
- The key contributions came from coal[40] and metallurgical cargoes[41] which grew their year-on-year Freight Rail Turnover by 139% or 10.3 billion tonnes-km and 8% or 3.2 billion tonnes-km respectively.
  - The increase in coal transportation was driven by favourable market conditions and the impact of all operators switching to market-based pricing (resulting from transfer of the first part of RZD's railcar fleet out of tariff regulation to OAO Freight Two). In this changed environment, Globaltrans introduced block train[39] logistics schemes based on enhanced railcar turnover speed. This enabled us to achieve target returns even with high Empty Run Ratio on return journies that is customary for block train[39] logistics.
  - The growth in transportation of metallurgical cargoes was supported by a continued recovery in production volumes of metallurgical plants. Increased output of steel mills enabled the Group to increase its volumes of inbound freight. This was especially the case with scrap metal and iron ore traffic which demonstrated respectively 130% and 118% year-on-year Freight Rail Turnover increases in 2010.
- Other cargoes increased by 3.0 billion tonnes-km with key contributor being increased transportation volumes of limestone.
- The pick-up in construction activity in Russia had a positive effect on volumes in the construction materials sector. The Group's Freight Rail Turnover of construction materials (including cement) jumped by 24% year-on-year or 0.5 billion tonnes-km in 2010 with crushed stone being the key contributing cargo.
- The Group's Freight Rail Turnover of oil products and oil decreased year-on-year by 2% resulting from the change in logistics.

Globaltrans' Freight Rail Turnover bridge, 2009 – 2010 (billion tonnes-km)

Source: Globaltrans.



Globaltrans' Freight Rail Turnover by type of cargo in 2010



Source: Globaltrans

[39] Block train consists of group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar utilisation as it avoids the need to couple and decouple individual rolling stock at rail yards.
[40] Coal includes thermal and coking coal.
[41] Metallurgical cargoes include ferrous metals, scrap metal and iron ore.
[42] Construction materials including cement.

Operational performance continued

There were other important factors that impacted the operational performance of the Group in 2010, including (i) a decrease in the Group's Average Number of Loaded Trips per Railcar by 4% to 29.3 trips in 2010 compared to the previous year resulting from increased share of gondola cars in the Average Rolling Stock Operated (with longer Average Distance of Loaded Trips and lower Average Number of Loaded Trip per Railcar compared to rail tank cars); and (ii) decrease of Average Distance of Loaded Trip by 2% year-on-year to 1,504.0 kilometres, driven by more inland traffic having shorter Average Distance of Loaded Trip.

Strong customer focus maintained

In 2010 the Group continued to focus on its long-term partnerships with key customers. Globaltrans' key customers are among the largest industrial groups in Russia in the sectors of metals and mining (Evraz, Mechel, MMK, Severstal and Ural Steel) and oil products and oil (Gazpromneft, Lukoil, RITEK, Rosneft, and TNK-BP). No major changes occurred in the share of largest customers in Globaltrans' transportation portfolio in the period under review. In 2010 these key customers[43] contributed approximately 71% of the Group's Net Revenue from Operation of Rolling Stock. The remainder consisted of other corporate customers, primarily from the small and medium enterprise sector of the economy.

Globaltrans' key customer groups[43] as a percentage of Net Revenue from Operation of Rolling Stock, 2009 – 2010

Key customer groups[43]	Industry	2009	2010
TNK-BP	Oil products and oil	25%	23%
MMK	Metal and mining	10%	11%
Evraz	Metal and mining	10%	9%
Lukoil	Oil products and oil	10%	9%
Gazpromneft	Oil products and oil	8%	6%
Rosneft	Oil products and oil	4%	4%
Severstal	Metal and mining	3%	4%
Ural steel	Metal and mining	1%	3%
RITEK	Oil products and oil	1%	1%
Mechel	Metal and mining	1%	1%
Other customers (including SMEs)	Various	27%	29%
Total		100%	100%

Source: Globaltrans.

Operational achievements in 2010

Valery Shpakov
CEO of New Forwarding Company

Expansion to CIS countries enabled to extend client base

In 2010, we expanded the geographical scope of our operations, launching some new freight services to and from the CIS countries (Kazakhstan, Ukraine, Belarus, Azerbaijan, etc.). This move enabled us to diversify our cargo mix, forge new relationships and win new customers. Our new customer wins include large scale industrial companies like Belarusian Potassium Company, Byelorussian Steel Works (BMZ), Interpipe (Ukraine) and Khartsyzsk Pipe Plant (Ukraine). Moreover, by extending our geographic coverage, we are starting to service our existing metallurgical customers in these new markets, thus deepening further our relationships with them.

Electronic empty railcar dispatch increases railcar turnaround speed and reduces costs

In 2010 we launched a fully comprehensive electronic empty railcar management system. This system has been fully integrated into both the Group's and RZD's internal IT systems. It enables us to dispatch empty railcars instantly after they have finished unloading thus avoiding costly dwell time. The new management system means that operations can be conducted round-the-clock and with far fewer personnel at the individual locations. We are today the only private freight rail operator in Russia electronically managing movement and dispatch of empty railcars on a large scale.

Efficient management of rolling stock is one of the cornerstones of the Globaltrans' business model and one of the drivers of Group profitability.

Empty Run Ratio improved

Efficient management of rolling stock is one of the cornerstones of the Globaltrans' business model and one of the drivers of Group profitability. Converting empty trips to loaded runs drives revenue whilst at the same time decreasing Empty Run Costs which are the largest contributor to Operating Cash Costs for the Group. Destination and route management is primarily applicable only to universal gondola cars. In the case of specialised rolling stock like rail tank cars and hopper cars, optimisation opportunities are limited as the railcars practically always return empty.

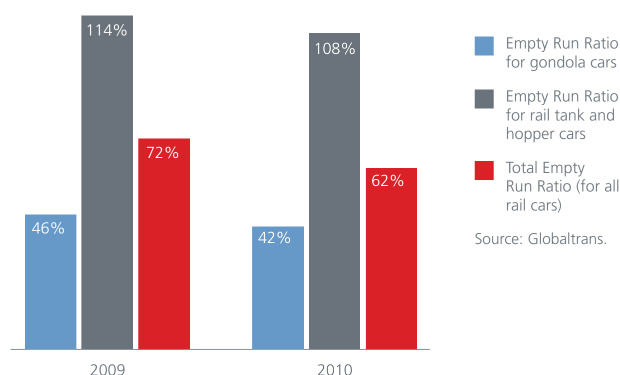
In order to assess the efficiency of rolling stock management, the Group monitors the Empty Run Ratio, a key management metric, calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type.

In 2010, management efforts were directed at improving the Empty Run Ratio which had deteriorated during the recession, as the volume of freight available for inbound traffic reduced, particularly in those markets geared to the domestic economy, for example scrap metal, coking coal and construction materials.

Our efforts together with a recovery in demand for transportation services enabled to improve the Empty Run Ratio in 2010. The Group's Total Empty Run Ratio which aggregates all railcar types, improved to 62% in 2010 compared to 72% in 2009 resulting from:

- For gondola cars the Empty Run Ratio averaged 42% in 2010 compared to 46% in the previous year driven primarily by improved market for return cargo particularly in the second half of 2010 (more inbound traffic to metallurgical customers and rebound in construction materials segment) notwithstanding increased volumes of block train[44] coal transportation with high Empty Runs.
- Empty Run Ratio for rail tanks and hoppers down to 108% from 114% in 2009 due to change in logistics.

Globaltrans' Empty Run Ratio by type of railcars, 2009 – 2010



Source: Globaltrans.

[43] Key customer groups including their affiliates and suppliers.
[44] Block train consists of group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar utilisation as it avoids the need to couple and decouple individual rolling stock at rail yards.

Operational performance continued

Operational achievements in 2010

Vyacheslav Stanislavsky
Deputy CEO for Production and Commerce of New Forwarding Company

Creating win-win situations by increased use of block trains

Fast cargo delivery and tight control of transport costs are two key items our customers demand. In 2010 we increased our use of block trains, configuring logistics schemes that provide our clients with both - better delivery times for their shipments and lower associated costs. By assembling full trains composed only of our railcars we have increased the average daily distance a railcar travels from the standard 550 km per day to 800-1,000 km per day. As a result, our clients have received a quicker delivery of their goods along with a price discount from RZD on the use of infrastructure and locomotive traction.

Route configuration targeted at minimising Empty Runs

As early as the shipment planning stage, we examine all the available opportunities in order to optimise Empty Run Costs. Based on a detailed analysis of freight available along a specific route, we then develop individual railcar schedules. For example, gondola cars delivering metals to Far East ports are reloaded with containers and dispatched in various directions across the railway system. Railcars arriving with metal cargoes into Northwest ports are re-assigned to transport aggregates from quarries located in the Saint Petersburg area. Upon discharge of metals at the Novorossiysk Port, gondolas are used for the transportation of feedstock for cement production (gypsum rock and gaize) from extraction sites located in the South of Russia. Our strong nationwide customer base and flexible approach to shipment planning support our ability to successfully reduce Empty Runs.

Railcar leasing business

The second major service offered by Globaltrans is railcar leasing contributing 8% to the Adjusted Revenue of Globaltrans in 2010. The majority of leasing business operations is concentrated in the Group's subsidiaries AS Spacecom and AS Spacecom Trans. Globaltrans leases out its rolling stock primarily to markets in Russia, the CIS countries and the Baltics. The Group's key leasing customers include PetroKazakhstan Kumkol Resources (Kazakhstan) and CNPC-Aktobemunaigaz (Kazakhstan). The majority of the Group's leased-out fleet comprises rail tank cars. Leasing business complements the Group's freight rail transportation operations with stable mostly US Dollar denominated cash flows.

In 2010 the Group's leasing business demonstrated good performance supported primarily by moderate increase in lease rates alongside with an increase in the average rolling stock leased-out over the year. The number of rolling stock leased-out at the end of the year amounted to 5,816 units or 11% of the Group's Total Fleet, decreasing by 3% compared to the end of 2009.

Rolling stock fleet

In 2010 Globaltrans' Total Fleet expanded organically by 36% or 13,497 units, and at the year end the fleet stood at 50,714 units of rolling stock.

In 2010 the Group took delivery of 5,797[45] railcars (5,191 gondola cars, 605 rail tank cars and 1 locomotive) comprising of:

- Delivery of the remaining balance of 6,500 units contracted at the close of 2009, and
- Delivery of an additional 800 units contracted in the second half of 2010 as a part of the acquisition target of 5,000 new railcars.

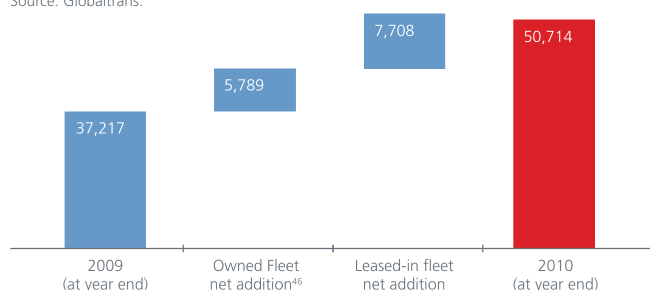
To meet the growing demand for transportation services Globaltrans significantly expanded its leased-in fleet adding a further 7,708 units over the course of 2010. Bulk of the operating lease contracts signed in the second half of 2010 will expire in mid 2011.

The Group historically uses its leased-in fleet as a way to take advantage of favourable market conditions and/or to test new routes and customers, and in doing so establish a platform for expanding its Owned Fleet.

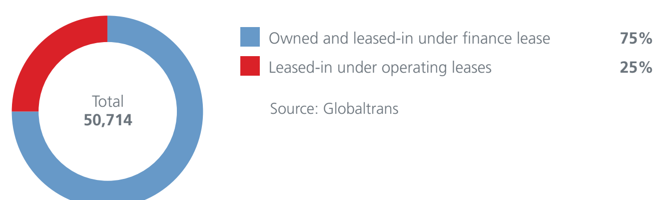
Expanding our fleet when conditions are favourable is a key component of the Group's growth agenda.

Globaltrans' Total Fleet expansion, 2010

Source: Globaltrans.



Globaltrans' Total Fleet by ownership, as of the end of 2010



Globaltrans' Total Fleet structure, as of the end of 2010

	Owned and leased-in under finance leases	Leased-in under operating leases	Total	% of Total
Gondola cars	20,650	8,918	29,568	58%
Rail tank cars	16,976	3,622	20,598	41%
Hopper cars	370	0	370	0.7%
Flat cars	120	0	120	0.2%
Locomotives	57	1	58	0.1%
Total	38,173	12,541	50,714	100%

Source: Globaltrans

The majority of the Group's fleet is directly owned or leased under financial leases, 38,173 units or 75% of the Group's Total Fleet as of the end of 2010. The remainder is leased-in from the third parties under operating lease arrangements. The average age of the Group's Owned Fleet was 6.3 years at the end of 2010 making it the one of the most modern in the industry in Russia.

Globaltrans aims to retain a balanced fleet split between gondola cars and rail tank cars. As of the end of 2010, the gondola cars' fleet totalled 29,568 units or 58% of Total Fleet. Universal gondola cars are predominantly used for transportation of various bulk cargoes, including ferrous metals, scrap metal, ores, crushed stone, coal, timber, pipes and even containers.

Rail tank cars accounted for 41% of the Group's Total Fleet or 20,598 units as of the end of 2010. Rail tanks are used predominantly for rail transportation of oil products and oil. The Group's rail tanks fleet includes 2,520 steam jacket tanks which enable faster loading and unloading of oil products during the winter months, thus helping to improve fleet utilisation. The Group's fleet also includes 270 LPG rail tanks.

The Group's locomotive fleet consisted of 58 units as of the end of 2010. These locomotives are used primarily for traction of block trains which consist of group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar utilisation as it avoids the need to couple and decouple individual rolling stock at rail yards.

Globaltrans' fleet also includes 370 hopper cars and 120 flat cars as of the end of 2010.

[45] 8 units of rolling stock (2 locomotives and 6 railcars) were disposed over the reporting period.
[46] Owned Fleet net addition is calculated as the balance between 5,797 units delivered and 8 units disposed over the reporting period.

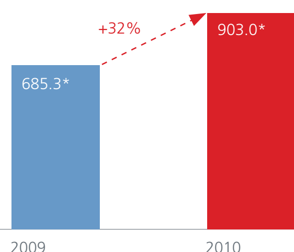
Financial review

Highlights

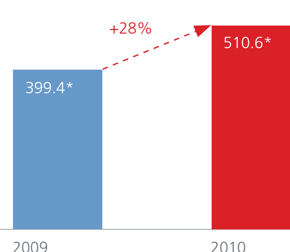
Globaltrans had an outstanding year in 2010, managing to benefit from the sustained recovery of the transportation market. Increased business volumes, a better pricing environment and continued stringent control of operating costs together enabled the Group to deliver an excellent set of financial results[47].

- Adjusted Revenue increased by 32% to USD 903.0* million (2009: USD 685.3* million), driven by increases in Freight Rail Turnover as well as firmer pricing;
- Total Operating Cash Costs amounted to USD 510.6* million, a year-on-year increase of 28% driven by increased business volumes. Operating lease rentals - rolling stock and Empty Run Costs were the key contributors to the above growth;
- Adjusted EBITDA increased by 37% to USD 390.9* million (2009: USD 284.5* million). Adjusted EBITDA Margin improved to 43%* from 42%* in 2009;
- Profit for the year increased by 86% to USD 225.9 million (2009: USD 121.2 million), Earnings per share increased by 51% to USD 1.12 per share;
- Capital expenditures[48] increased to USD 286.2 million from USD 103.9 million in 2009, primarily due to the Group's investment programme into new rolling stock;
- Net Debt increased by 32% to USD 381.3* million at the end of 2010 (USD 288.9* million at the end of 2009). Year end Net Debt to Adjusted EBITDA ratio remained unchanged year-on-year at 1.0x*.

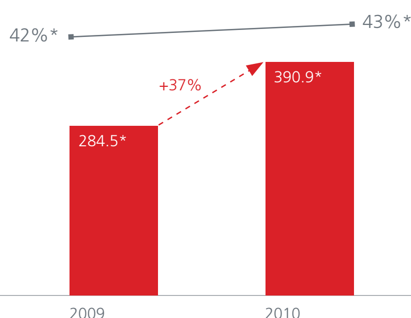
Adjusted Revenue (USD million)



Operating Cash Costs (USD million)

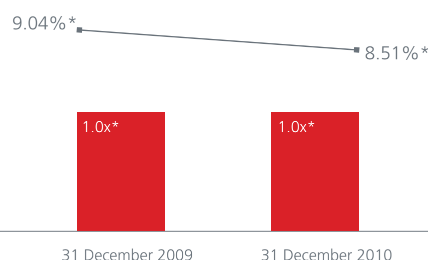


Adjusted EBITDA (USD million); Adjusted EBITDA Margin



Adjusted EBITDA — Adjusted EBITDA Margin

Net Debt to Adjusted EBITDA; Weighted average effective interest rate



Net Debt to Adjusted EBITDA — Weighted average effective interest rate

Increased business volumes, a better pricing environment and continued stringent control of operating costs together enabled the Group to deliver an excellent set of financial results.

The Group's key financial results for the years ended 31 December 2010 and 2009.

	2009	2010	Change
	USD mln	USD mln	%
IFRS FINANCIAL INFORMATION			
Revenue	1,163.4	1,382.7	19%
Including Total revenue – operator's services	1,096.6	1,309.7	19%
Including Total revenue – operating lease	65.4	70.5	8%
Total cost of sales, selling and marketing costs and administrative expenses	935.1	1,056.3	13%
Operating profit	229.1	329.4	44%
Finance costs – net	(78.7)	(45.9)	-42%
Profit for the year	121.2	225.9	86%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	0.74	1.12	51%
Total assets (at year end)	1,265.0	1,515.3	20%
Total debt (at year end)	449.1	519.0	16%
Cash and cash equivalents (at year end)	160.3	137.7	-14%
NON-GAAP FINANCIAL INFORMATION			
Adjusted Revenue	685.3*	903.0*	32%
Including Net Revenue from Operation of Rolling Stock	618.5*	830.0*	34%
Total Operating Cash Costs	399.4*	510.6*	28%
Including Empty Run Costs	167.9*	203.4*	21%
Including Operating lease rentals – rolling stock	38.8	87.5	125%
Adjusted EBITDA	284.5*	390.9*	37%
Adjusted EBITDA Margin	42%*	43%*	–
Net Debt (at year end)	288.9*	381.3*	32%
Net Debt to Adjusted EBITDA (at year end)	1.0x*	1.0x*	–

[47] The Group's financial performance in 2010 was affected by a 4% appreciation of the average exchange rate of the Rouble (Functional Currency of the Company, its Cyprus and Russian subsidiaries) against the US Dollar (the Group's financial information presentation currency). In accordance with the Group's accounting policies, the reported financial and operational results include results of LLC BaltTransServis (acquired in December 2009) for the years ended 31 December 2009 and 2010.
[48] Additions of rolling stock in 2010 as well as capitalised repairs (including rolling stock leased under finance leases).

Financial review continued

Results of operations

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2010 and 2009.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Revenue	1,163.4	1,382.7	219.3	19%
Cost of sales	(874.2)	(981.4)	107.3	12%
Gross profit	289.3	401.2	112.0	39%
Selling and marketing costs	(2.2)	(2.7)	0.5	23%
Administrative expenses	(58.8)	(72.2)	13.4	23%
Other gains – net	0.8	3.0	2.3	288%
Operating profit	229.1	329.4	100.3	44%
Finance income	5.9	7.2	1.3	22%
Finance costs	(84.6)	(53.1)	(31.5)	-37%
Finance costs – net	(78.7)	(45.9)	(32.8)	-42%
Share of profit of associates	0.5	0.2	(0.3)	-55%
Profit before income tax	150.9	283.7	132.8	88%
Income tax expense	(29.7)	(57.7)	28.1	95%
Profit for the year	121.2	225.9	104.8	86%
Attributable to:				
Equity holders of the Company	88.1	177.3	89.3	101%
Non-controlling interests	33.1	48.6	15.5	47%
	121.2	225.9	104.8	86%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	0.74	1.12	0.4	51%

Revenue, Adjusted Revenue and Net Revenue from Operation of Rolling Stock

In 2010 the Group's revenue amounted to USD 1,382.7 million, representing an increase of USD 219.3 million or 19% from USD 1,163.4 million in the previous year.

The following table sets forth revenue, broken down by revenue-generating activity for the years ended 31 December 2010 and 2009.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Railway transportation – operators services (tariff borne by the Group)[49]	816.0	810.7	(5.3)	-1%
Railway transportation – operators services (tariff borne by the client)	280.6	499.1	218.4	78%
Railway transportation – freight forwarding	0.3	1.9	1.6	601%
Operating lease of rolling stock	65.4	70.5	5.2	8%
Sale of wagons and locomotives	0.2	–	(0.2)	-100%
Other	0.9	0.6	(0.4)	-40%
Total revenue	1,163.4	1,382.7	219.3	19%

Adjusted Revenue

For purposes of analysing revenue, the Group considers “Adjusted Revenue” (a non-GAAP financial measure) which is “total revenue” less “infrastructure and locomotive tariffs: loaded trips”. Infrastructure and locomotive tariffs: loaded trips is revenue resulting from tariffs which customers pay to the Group and the Group pays on to RZD, which payments are reflected in the Group’s cost of sales. The principal components of Adjusted Revenue include: (i) Net Revenue from Operation of Rolling Stock; (ii) revenue from operating lease of rolling stock and (iii) other revenues generated by the Group’s non-core business activities, including freight forwarding, resale of rolling stock, etc. Adjusted Revenue amounted to USD 903.0* million in 2010, an increase of USD 217.7 million or 32% compared to USD 685.3* million in the previous year.

The following table sets forth Adjusted Revenue for the years ended 31 December 2010 and 2009 and its reconciliation to revenue.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Revenue	1,163.4	1,382.7	219.3	19%
Minus				
Infrastructure and locomotive tariffs: loaded trips	478.2	479.7	1.5	0%
Adjusted Revenue	685.3*	903.0*	217.7	32%

The following table sets forth the breakdown of Adjusted Revenue for the years ended 31 December 2010 and 2009.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Net Revenue from Operating of Rolling Stock	618.5*	830.0*	211.6	34%
Operating lease of rolling stock	65.4	70.5	5.2	8%
Railway transportation – freight forwarding	0.3	1.9	1.6	601%
Sale of wagons and locomotives	0.2	–	(0.2)	-100%
Other	0.9	0.6	(0.4)	-40%
Adjusted Revenue	685.3*	903.0*	217.7	32%

[49] Includes “Infrastructure and locomotive tariffs: loaded trips” for the year ended 31 December 2010 amounting to USD 479.7 million (for the year ended 31 December 2009: USD 478.2 million).

Financial review continued

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock accounted for 92% of the Group's Adjusted Revenue in 2010. Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure describing the net revenue generated from freight rail transportation and is defined as "revenue from railway transportation – operators services[50]" less "infrastructure and locomotive tariffs: loaded trips".

In 2010 Net Revenue from Operation of Rolling Stock amounted to USD 830.0* million, an increase of USD 211.6 million or 34% compared to USD 618.5* million in the previous year. This increase was primarily driven by the following factors:

- Average Rolling Stock Operated increased by 30% year-on-year to 36,793 units. Within the mix, average gondola cars operated were up 54% and average rail tank cars operated were up by 4%;
- Average Price per Trip increased by 7% to USD 770.4 in 2010 compared to 2009, Average Distance per Loaded Trip shortened by 2%;
- Average Number of Loaded Trips per Railcar fell by 4% to 29.3 trips compared to the previous year.

Revenue from operating lease of rolling stock

Revenue from operating lease of rolling stock accounted for 8% of the Group's Adjusted Revenue in 2010. Revenue from operating lease of rolling stock grew to USD 70.5 million in 2010, an increase of 8% over the previous year.

This performance was primarily driven by a combination of moderate increases in lease rates alongside an increase in the average rolling stock leased-out over the year.

The number of rolling stock leased-out at the end of the year decreased by 3% compared to the end of 2009.

Cost of sales, selling and marketing costs and administrative expenses

In 2010 the Group's total cost of sales, selling and marketing costs and administrative expenses amounted to USD 1,056.3 million, an increase of 13% compared to the previous year.

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass-through" cost item for the Group[51] and is reflected in equal amounts in the Group's revenue and cost of sales. Infrastructure and locomotive tariffs: loaded trips remained relatively flat at USD 479.7 million in 2010 compared to USD 478.2 in the previous year.

The following table sets forth Net Revenue from Operation of Rolling Stock for the years ended 31 December 2010 and 2009, and its reconciliation to revenue from railway transportation – operators services.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Railway transportation – operators services[50]	1,096.6	1,309.7	213.1	19%
Minus				
Infrastructure and locomotive tariffs: loaded trips	478.2	479.7	1.5	0%
Net Revenue from Operation of Rolling Stock	618.5*	830.0*	211.6	34%

[50] Defined as the sum of the following IFRS line items: "railway transportation – operators services (tariff borne by the Group)" and "railway transportation – operators services (tariff borne by the client)".
[51] Under contracts where the RZD tariff is borne by the Group, the Group has a contractual relationship with the client. The Group sets the terms of the transactions, such as selling and payment terms and in some cases bears credit risk and controls the flow of receipts and payments.

The following table sets forth a breakdown of cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2010 and 2009.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Cost of sales	874.2	981.4	107.3	12%
Selling and marketing costs	2.2	2.7	0.5	23%
Administrative expenses	58.8	72.2	13.4	23%
Total cost of sales, selling and marketing costs and administrative expenses	935.1	1,056.3	121.2	13%

For the purpose of presenting the dynamics and nature of the Group's cost base, individual items of total cost of sales, selling and marketing costs and administrative expenses have been regrouped as presented below:

	2010	2009	2010	Change	Change
	% of total	USD mln	USD mln	USD mln	%
Infrastructure and locomotive tariffs: loaded trips	45%	478.2	479.7	1.5	0%
Total Operating Cash Costs	48%	399.4*	510.6*	111.3	28%
Empty Run Costs		167.9*	203.4*	35.5	21%
Operating lease rentals - rolling stock		38.8	87.5	48.7	125%
Repairs and maintenance		62.2	63.7	1.5	2%
Employee benefit expense		34.7	46.4	11.7	34%
Other Tariffs and Services Provided by Other Transportation Organisations		27.3*	29.2*	1.9	7%
Fuel and spare parts - locomotives		17.0	21.3	4.2	25%
Engagement of locomotive crews		10.1	11.3	1.2	12%
Legal, consulting and other professional fees		6.6	3.3	(3.3)	-50%
Other Operating Cash Costs		34.6*	44.6*	10.0	29%
Total Operating Non-Cash Costs	6%	57.6*	66.1*	8.4	15%
Depreciation of property, plant and equipment		53.2	63.0	9.8	18%
Amortisation of intangible assets		0.0[52]	0.2	0.2	100%
Impairment charge for receivables		1.4	1.5	0.0	3%
Loss/(gain) on sale of property, plant and equipment		1.7	2.0	0.4	22%
(Reversal of)/impairment charge for property, plant and equipment		1.3	(0.7)	(1.9)	-150%
Total cost of sales, selling and marketing costs and administrative expenses	100%	935.1	1,056.3	121.2	13%

[52] USD 14,000.

Financial review continued

Operating Cash Costs

Operating Cash Costs (a non-GAAP financial measure) include cost items contained within cost of sales as well as selling and marketing costs and administrative expenses payable in cash. The Group's Total Operating Cash Costs increased by 28% to USD 510.6* million in 2010, compared to the previous year. This rise was mainly the result of an increase in Empty Run Costs together with an increase in operating lease rentals - rolling stock resulting from increased volumes of business as well as other factors described below.

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure) accounted for 40% of Total Operating Cash Costs in 2010. Empty Run Costs were USD 203.4* million in 2010, an increase of 21% compared to 2009, primarily driven by the following factors:

- Increased business volumes evidenced by a 20% year-on-year increase in the Group's Freight Rail Turnover;
- An increase in RZD's regulated infrastructure and locomotive traction tariff by 9.4%[53] resulting in increased charges for the traction of empty railcars;
- The above factors were offset by an improvement in Total Empty Run Ratio and changes to the Group's cargo mix. Total Empty Run Ratio decreased from 72% in 2009 to 62% largely as a result of:
  - An improvement in Empty Run Ratio for gondola cars to 42% from 46% in 2009 notwithstanding increased volumes of block train[54] coal transportation with high Empty Runs. The improvement was driven by an improved return cargo market (more inbound traffic to metallurgical customers, and a rebound in the construction materials segment);
  - An improvement in Empty Run Ratio for rail tank cars and hoppers to 108% from 114% in 2009 due to changed logistics.

Operating lease rentals – rolling stock

Operating lease rentals – rolling stock accounted for 17% of the Group's Total Operating Cash Costs in 2010. This cost item went up by 125% to USD 87.5 million compared to the previous year, reflecting strong growth in the average number of leased-in railcars over the period and increased lease rates. Leased-in railcar numbers increased by 159% to 12,541 units at the end of 2010 compared to the end of the previous year, driven by greater second half demand for rail transportation services which in turn enabled the Group to grow market share and expand its customer base. The Group historically uses its leased-in fleet as a way to take advantage of favourable market conditions and/or to test new routes and customers, and in doing so establish a platform for expanding its Owned Fleet. Bulk of the operating lease contracts signed in the second half of 2010 will expire in mid 2011.

The following table sets forth a breakdown of Total Operating Cash Costs for the years ended 31 December 2010 and 2009.

	2010	2009	2010	Change	Change
	% of total	USD mln	USD mln	USD mln	%
Empty Run Costs	40%	167.9*	203.4*	35.5	21%
Operating lease rentals – rolling stock	17%	38.8	87.5	48.7	125%
Repairs and maintenance	12%	62.2	63.7	1.5	2%
Employee benefit expense	9%	34.7	46.4	11.7	34%
Other Tariffs and Services Provided by Other Transportation Organisations	6%	27.3*	29.2*	1.9	7%
Fuel and spare parts – locomotives	4%	17.0	21.3	4.2	25%
Engagement of locomotive crews	2%	10.1	11.3	1.2	12%
Legal, consulting and other professional fees	1%	6.6	3.3	(3.3)	-50%
Other Operating Cash Costs	9%	34.6*	44.6*	10.0	29%
Total Operating Cash Costs	100%	399.4*	510.6*	111.3	28%

[53] According to Rosstat; December 2010 to December 2009.
[54] Block train consists of group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar utilisation as it avoids the need to couple and decouple individual rolling stock at rail yards.

Repairs and maintenance

Repairs and maintenance accounted for 12% of the Group's Total Operating Cash Costs in 2010. Repairs and maintenance costs increased by 2% to USD 63.7 million in 2010 compared to the previous year, reflecting increased prices for repair works and spare parts, partially offset by cost reductions from continued transfer of rolling stock to a mileage-based repairs system. During 2010 an additional 23% or 5,033 units of rolling stock of the Group's Owned Fleet was successfully transferred to mileage-based repairs. As at the year end, about 70% of the Group's Owned Fleet was being maintained on a mileage-based schedule.

Employee benefit expense

Employee benefit expense, accounting for 9% of the Group's Total Operating Cash Costs, rose by 34% to USD 46.4 million in 2010 compared to the previous year. This increase resulted primarily from a USD 8.4 million increase in bonuses and 12% increase in wages and salaries totaling USD 2.9 million.

Other Tariffs, Services Provided by Other Transportation Organisations

Other Tariffs, Services Provided by Other Transportation Organisations (a non-GAAP financial measure), which is presented as part of the "empty run trips, other tariffs and services provided by other transportation organisations" component of cost of sales reported under EU IFRS, increased in 2010 by 7% to USD 29.2* million compared to the previous year. This cost item covers locomotive and infrastructure tariffs payable for forwarding of railcars not under operation i.e. in transit to the first commercial location or to the repair depots as well as fees payable for subcontracting other transportation organisations.

Fuel and spare parts – locomotives

Fuel and spare parts – locomotive expenses was USD 21.3 million in 2010 an increase of 25% compared to the previous year. This increase was primarily a result of increased fuel prices.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD increased by 12% to USD 11.3 million reflecting primarily increases in employee salaries.

Legal, consulting and other professional fees

Legal, consulting and other professional fees decreased in 2010 by 50% to USD 3.3 million. The 2009 figure included expenses associated with the follow-on public offering of the GDRs of Globaltrans (completed in December 2009).

Other Operating Cash Costs

Other Operating Cash Costs (a non-GAAP financial measure), which include "operating lease rentals – office", "auditors' remuneration", "advertising and promotion", "communication costs", "information services", "taxes (other than income tax and value added taxes)", "cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)" and "other expenses", increased by 29% to USD 44.6* million in 2010 compared to the previous year, reflecting an increase in "taxes (other than income tax and value added taxes)" - mainly property tax as the Group's Owned Fleet increased significantly and other expenses.

Operating Non-Cash Costs

Operating Non-Cash Costs (a non-GAAP financial measure), which include "depreciation of property, plant and equipment", "amortisation of intangible assets", "impairment charge for receivables", "loss/(gain) on sale of property, plant and equipment", "(reversal of)/impairment charge for property, plant and equipment", amounted to USD 66.1* million in 2010, an increase of 15% compared to the previous year. The main non-cash expense item – "depreciation of property plant and equipment" increased by 18% year-on-year to USD 63.0 million in 2010, reflecting an increase in the number of Owned Fleet accounted for in Roubles.

Financial review continued

EBITDA and Adjusted EBITDA (non-GAAP financial measures)

The Group's EBITDA increased by 47% to USD 385.3* million in 2010, driven primarily by strong performance of the underlying business and factors described above.

Adjusted EBITDA increased by 37% year-on-year to USD 390.9* million in 2010. The difference between EBITDA and Adjusted EBITDA arises mostly from net foreign exchange transaction (losses)/gains on financing activities which are eliminated from the Adjusted EBITDA.

BTS, acquired in December 2009, performed well in the year under review. BTS' Adjusted EBITDA amounted to USD 119.9* million in 2010, an increase of 7% over the previous year.

Finance income

Finance income increased by 22% to USD 7.2 million in 2010 compared to the previous year. This increase was primarily due to an increase in interest income from finance leases of USD 2.2 million in 2010 compared to the previous year.

Finance costs

Finance costs decreased by 37% or USD 31.5 million to USD 53.1 million compared to the previous year. The main factors behind this were:

- Decrease in net foreign exchange transaction losses on financing activities of USD 13.7 million to USD 7.5 million driven by reduction of US Dollar denominated borrowings in the Group's debt portfolio, slightly offset by a 0.8% depreciation in the year end Rouble rate against the US Dollar compared to year end 2009;
- The elimination of one-off loss on exchange of financial liabilities during the current reporting period, which in 2009 totaled USD 8.5 million and arose from restructuring of the ownership structure of BTS following its acquisition by the Group in December 2009;
- The elimination of distribution to non-controlling participants in redeemable shares during the current reporting period, which in 2009 totaled USD 7.5 million and related to the distribution of dividends by BTS to its non-controlling participants prior to its acquisition by the Group in December 2009. As the acquisition of

The following table sets forth EBITDA and Adjusted EBITDA for the years ended 31 December 2010 and 2009, and its reconciliation to profit for the year.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Profit for the year	121.2	225.9	104.8	86%
Plus (Minus)				
Income tax expense	29.7	57.7	28.1	95%
Finance costs - net	78.7	45.9	(32.8)	-42%
Net foreign exchange transaction (losses)/gains on financing activities	(21.1)	(7.5)	13.7	-65%
Amortisation of intangible assets	0.0[55]	0.2	0.2	100%
Depreciation of property, plant and equipment	53.2	63.0	9.8	18%
EBITDA	261.6*	385.3*	123.7	47%
Minus (Plus)				
Net foreign exchange transaction (losses)/gains on financing activities	(21.1)	(7.5)	13.7	-65%
Share of profit of associates	0.5	0.2	(0.3)	-55%
Other gains – net	0.8	3.0	2.3	288%
Loss on sale of property, plant and equipment	(1.7)	(2.0)	(0.4)	22%
Reversal of/(impairment charge) for property, plant and equipment	(1.3)	0.7	1.9	-150%
Adjusted EBITDA	284.5*	390.9*	106.4	37%

[55] USD 14,000

BTS was accounted for as a common control transaction, the finance costs of the Group were restated to reflect the expenses incurred before the acquisition;

- USD 2.0 million paid to non-controlling participants of BTS in 2010 which were recognised as finance cost on liability for minimum dividend distribution.

Total interest expense recorded a year-on-year decrease of USD 3.9 million largely as a result of the following factors:

- Increase of "interest expense: bank borrowings" by USD 4.7 million year-on-year, driven by increase in the Group's borrowings portfolio over the period under review; along with increase of "interest expense: non-convertible bond" by USD 3.9 million year-on-year resulting from the issue of non-convertible Rouble denominated 5 year bond[56];
- The above-mentioned factors were offset by decreased "interest expense: finance leases" by USD 8.0 million related to the decrease of the Group's lease liabilities which were primarily refinanced with bank borrowings as well as with the non-convertible Rouble denominated bond proceeds. In addition, "interest expense: other interest – related parties" fell by USD 4.4 million year-on-year resulting from the full settlement of liability related to the deferred consideration payable to Transportation Investments Holding Limited (the Parent of the Group) for the acquisition of AS Spacecom and AS Spacecom Trans back in 2008. This liability was settled in full in April 2010 and no further interest expense was incurred thereafter.

Profit before income tax

Profit before income tax increased 88% to USD 283.7 million in 2010 from USD 150.9 million in 2009. This rise was driven primarily by year-on-year increase in operating profit (USD 100.3 million) combined with year-on-year decrease in finance costs – net (USD 32.8 million).

Income tax expense

Income tax expense increased year-on-year by 95% or by USD 28.1 million to USD 57.7 million in 2010. The weighted average applicable tax rate was 17.8% in 2010 (2009: 17.0%). The slight increase in the average applicable tax rate is caused by increased profitability of the Group's Russian subsidiaries which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

The following table sets forth a breakdown of finance costs for the years ended 31 December 2010 and 2009.

	2009	2010	Change	Change
	USD mln	USD mln	USD mln	%
Interest expense:				
Bank borrowings	(20.2)	(25.0)	4.7	23%
Non-convertible bond	–	(3.9)	3.9	NM
Finance leases	(21.5)	(13.5)	(8.0)	-37%
Loans from related parties	(0.6)	–	(0.6)	-100%
Loans from third parties	(0.3)	–	(0.3)	-100%
Other interest – related parties	(4.7)	(0.3)	(4.4)	-93%
Other finance costs	(0.1)	(0.9)	0.8	728%
Total interest expense	(47.5)	(43.7)	(3.9)	-8%
Net foreign exchange transaction (losses)/gains on financing activities	(21.1)	(7.5)	(13.7)	-65%
Finance cost on liability for minimum dividend distribution	–	(2.0)	2.0	NM
Loss on exchange of financial liabilities	(8.5)	–	(8.5)	-100%
Distribution to non-controlling participants in redeemable shares	(7.5)	–	(7.5)	-100%
Finance costs	(84.6)	(53.1)	(31.5)	-37%

[56] For a total amount of RUR 3 billion (approximately USD 98 million at the date of issue) completed in July 2010.

Financial review continued

Liquidity and capital resources

The business of freight rail transportation is capital-intensive. In the period under review, the Group has been able to meet its liquidity and capital expenditure needs from operating cash flow, supplemented by funds provided by shareholders (including the proceeds from the follow-on public offering of GDRs in December 2009), borrowings from financial institutions and proceeds from the bond issue.

Management controls current liquidity based on expected cash flows. As at 31 December 2010, the Group had positive Net Working Capital of USD 129.0* million. The Group believes that it has sufficient working capital for the next 12 months and that the combination of strong operating cash flow and a robust balance sheet will enable it to operate and expand its business.

The following table sets forth the principal components of the Group's consolidated cash flow statement for the years 2010 and 2009.

	2009	2010
	USD mln	USD mln
Cash flows from operating activities	284.1	393.6
Changes in working capital:		
Inventories	0.0[57]	(1.1)
Trade and other receivables	12.8	(79.3)
Trade and other payables	(6.7)	10.1
Cash generated from operations	290.2	323.3
Tax paid	(18.0)	(34.3)
Net cash from operating activities	272.2	288.9
Net cash used in investing activities	(167.5)	(293.0)
Acquisition of subsidiaries-net of cash acquired	(71.7)	(7.0)
Purchases of property, plant and equipment	(106.7)	(299.8)
Other[58]	10.9*	13.9*
Net cash used in financing activities	(80.7)	(17.6)
Net cash inflows (outflows) from borrowings and finance leases[59]	(52.8)*	71.1*
Interest paid	(49.7)	(43.6)
Proceeds from issue of shares – net	96.2	–
Dividends paid to shareholders of BTS prior to common control transaction	(67.1)	–
Distribution to non-controlling participants in redeemable shares	(7.5)	–
Dividends paid to Company's shareholders	–	(24.0)
Dividends paid to non-controlling shareholders	–	(21.2)
Contribution by non-controlling interests	–	0.0[60]
Net (decrease)/increase in cash and cash equivalents	24.0	(21.6)
Cash, cash equivalents and bank overdrafts at end of year	159.1	137.0

Cash flows

Net cash from operating activities

Net cash generated from operating activities increased by 6% or USD 16.8 million to USD 288.9 million compared to the previous year. Operating cash flow before working capital changes increased by 39% or USD 109.5 million to USD 393.6 million compared to 2009. This increase was largely offset by (i) an increase in trade and other receivables driven by increase in the Group's revenues and increase in prepayments; (ii) an increase in "VAT recoverable" related to the VAT reimbursable on the acquisition of new rolling stock; and (iii) a change of payment terms of some transportation agreements. In addition tax paid in 2010 increased by USD 16.3 million to USD 34.3 million compared to 2009, driven by a higher income tax charge for the period due to higher taxable profits.

Net cash used in investing activities

Net cash used in investing activities increased by 75% or USD 125.5 million from USD 167.5 million in 2009 to USD 293.0 million in 2010. Net cash used in the Group's investing activities is largely dependent on the level of expenditure on property, plant and equipment. The increase of USD 193.2 million or 181% in the purchases of property, plant and equipment to USD 299.8[61] million in 2010 reflected the significant capital expenditure programme (related to acquisition of rolling stock) completed over the reporting period. In addition, cash outflows associated with deferred payments for the acquisition of AS Spacecom and AS Spacecom Trans (the transaction closed in December 2008) decreased in 2010 to USD 7.0 million compared to USD 71.7 million in 2009 as the respective liability was settled in full in April 2010.

Net cash (used in)/from financing activities

Net cash used in financing activities decreased from USD 80.7 million in 2009 to USD 17.6 million in 2010 and consisted primarily of the following:

- Net cash inflows from borrowings and finance leases[59] of USD 71.1 million;
- Payment of USD 24.0 million in dividends to Company's shareholders, whereas no dividend was paid by the Company in 2009;
- Payment of USD 21.2 million of dividends to non-controlling shareholders; and
- Interest paid of USD 43.6 million.

Capital expenditures

The Group's capital expenditures have principally been made to fund the acquisition of rolling stock. Following its strategy of opportunistic growth, the Group continued to expand its rolling stock fleet. In 2010 the Group took delivery of 5,797[62] railcars (5,191 gondola cars, 605 rail tank cars and 1 locomotive) comprising of:

- Delivery of remaining balance of 6,500 units contracted at the close of 2009, and
- Delivery of an additional 800 units contracted in the second half of 2010 as a part of the Group's 2011 acquisition target for 5,000 new railcars.

The Group's capital expenditures on acquisition of rolling stock[63] amounted to USD 286.2 million in 2010 compared to USD 103.9 million in the previous year.

[57] USD 7,000.
[58] "Other" represents the sum of the following IFRS line items: "loans repayments received from third parties", "purchases of intangible assets", "proceeds from disposal of property, plant and equipment", "proceeds from sale of assets classified as held for sale", "interest received", "receipts from finance lease receivable".
[59] Defined as a balance between of "proceeds from borrowings", "repayments of borrowings", "finance lease principal payments", "proceeds from sale and finance leaseback transactions".
[60] USD 28,000.
[61] Difference of USD 11.6 million between "purchases of property, plant and equipment" recorded in consolidated cash flow statement and "additions" recorded in consolidated balance sheet (Note 12) relates to the change in prepayments for property plant and equipment for the periods ended 31 December 2010 and 31 December 2009.
[62] 8 units of rolling stock (2 locomotives and 6 railcars) were disposed over the reporting period.
[63] Additions of rolling stock in 2010 as well as capitalised repairs.

Financial review continued

Capital resources

The Group's financial indebtedness as of the end of 2010 consisted of bank overdrafts, bank borrowings, loans from related and third parties, finance lease liabilities and non-convertible Rouble denominated bond with an aggregate principal amount of USD 519.0 million (including accrued interest of USD 3.2* million), representing an increase of USD 69.9 million or 16% when compared to the end of 2009.

Cash and cash equivalents reduced by USD 22.6 million or 14% from USD 160.3 million at the end of 2009 to USD 137.7 million at the end of 2010.

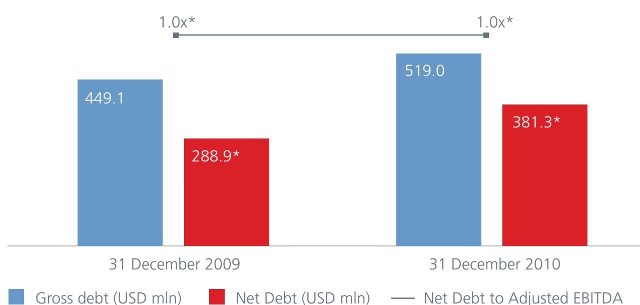
Net Debt increased by 32% or by USD 92.5 million from USD 288.9* million as at the end of 2009 to USD 381.3* million as at the end of 2010. The Group continued to operate in 2010 with a strong balance sheet and modest financial gearing; Net Debt to Adjusted EBITDA ratio stood unchanged at the level of 1.0x* at the year end compared to the end of 2009.

In order to mitigate foreign exchange risk on the Group's borrowings, the Group increased the share of Rouble denominated borrowings within its debt portfolio from 36% as at 31 December 2009 to 78% as at 31 December 2010.

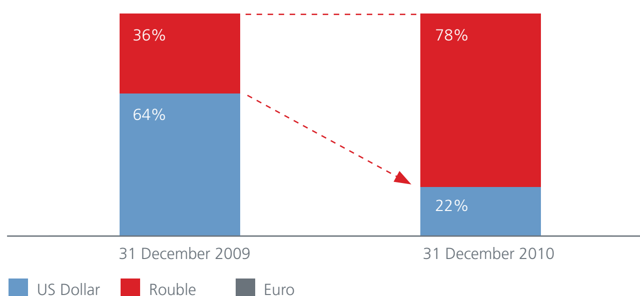
Despite the significant increase in Rouble denominated borrowings, the Group's weighted average effective interest rate reduced to 8.51%* as at 31 December 2010 compared to 9.04%* as at 31 December 2009.

As of the end of 2010, 50%* of the Group's borrowings had a fixed interest rate while the remaining 50%* had a floating interest rate.

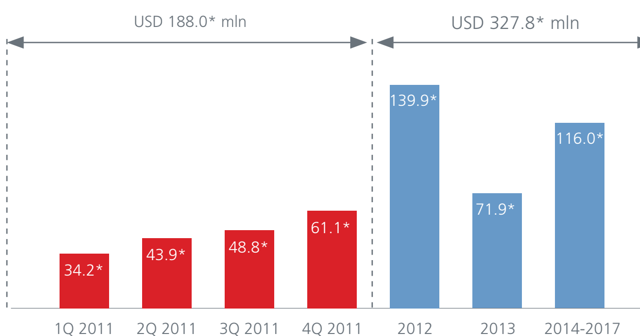
Gross debt; Net Debt; Net Debt to Adjusted EBITDA



The carrying amounts (including accrued interest of USD 3.2* million) of the Group's borrowings were denominated in the following currencies as of the end of 2010 and 2009.



The maturity profile of the Group's borrowings (excluding accrued interest of USD 3.2* million included within borrowings in the balance sheet) as of the end of 2010.



Related party transactions

The Group considers parties to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group is controlled by Transportation Investments Holding Limited ("the Parent") incorporated in Cyprus, which owns 50.10% of the Company's shares. Envesta Investments Limited owns 14.45% (including the holding of GDRs of the Company) of the Company's shares. Further, the Directors of the Company control 0.14% of the Company's shares through their holdings of GDRs. The remaining 35.31% of the shares represent the free market-float and are held by external investors through GDRs.

The following table sets forth the summary of transactions which were carried out with related parties for the years ended 31 December 2010 and 2009.

	2009	2010
	USD mln	USD mln
Sales of goods and services	118.8	134.4
Purchase of goods and services	(28.2)	(32.8)
Additions of property, plant and equipment	0.7	1.3
Interest expense	(5.4)	(0.9)
Directors' remuneration[64]	(0.7)	(1.4)
Key management salaries and other short term employee benefits	(8.6)	(16.6)

The following table sets forth the year-end balances with related parties.

	2009	2010
	USD mln	USD mln
Trade receivables	14.5	12.3
Prepayments	1.7	7.9
Trade payables	1.0	1.3
Consideration payable to the Parent for the acquisition of AS Spacecom and AS Spacecom Trans (formerly AS Intopex Trans)	7.1	–
Advances received	3.5	3.0

The following table sets forth the Group's borrowings and finance leases guaranteed by related parties.

	2009	2010
	USD mln	USD mln
Borrowings guaranteed by related parties	48.2	–
Finance lease and sale and leaseback contracts guaranteed by related parties	60.7	–

The following table sets forth the Group's operating lease commitments under non-cancellable operating leases with related parties.

	2009	2010
	USD mln	USD mln
Group as lessor	8.9	0.0[65]
Group as lessee	12.4	17.2

[64] Includes remuneration of executive directors paid by the subsidiaries of the Group.
[65] USD 9,000

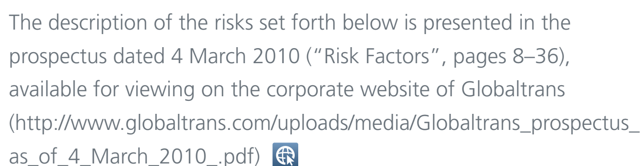
Principal risks and uncertainties

Effective risk management is critical to achieve the Group's strategic objectives. Globaltrans has comprehensive risk control and management systems in place to prevent potential adverse effects of changes in its environment or situation.

The Board of Directors has adopted a formal process to identify, evaluate and manage significant risks faced by the Group, and systematically monitors and undertakes an assessment of risks critical to the Group's performance and strategic delivery. The Group's business involves a certain number of risks, the most notable of which are presented below. The order in which the following risks are presented is not intended to be an indication of the probability of their occurrence or the magnitude of their potential effects. Additional risks that are not known to the Group at this time, or that it currently believes are immaterial, could also have a material adverse effect on the Group's business, financial condition, results of operations or future prospects and the trading price of the GDRs.

For detailed information on the risk management process within Globaltrans please refer to "Risk management" included into "Governance" section of this Annual Report at page 56.

The description of the risks set forth below is presented in the prospectus dated 4 March 2010 ("Risk Factors", pages 8–36), available for viewing on the corporate website of Globaltrans (http://www.globaltrans.com/uploads/media/Globaltrans_prospectus_as_of_4_March_2010_.pdf)



Strategic risks

- The Group's business and substantially all of its assets, are located in Russia and certain other emerging markets. Emerging markets, such as the Russian Federation, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political and social, and legal and legislative risks;
- The Group may be subject to increasing competition from other transportation and logistics companies;
- The Group's relationship with RZD and government authorities may deteriorate;
- Expansion through acquisition entails certain risks, and the Group may experience problems in integrating and managing such new acquisitions;
- The Group is dependent on demand in the Russian rail transportation market, which in turn depends on certain key economic sectors, and accordingly, on economic growth;
- The Group is subject to risks relating to the potential postponement or cancellation of certain steps towards the reform of the Russian rail transportation market;
- Insufficient supply of, or increases in the price of, rolling stock may limit the Group's expansion.

Effective risk management is critical to achieve the Group's strategic objectives. Globaltrans has comprehensive risk control and management systems in place to prevent potential adverse effects of changes in its environment or situation.

Operational risks

- The Group's business is heavily dependent on services provided by RZD and the ageing railway infrastructure in Russia, Kazakhstan and Ukraine;
- The Group's customer base is heavily dependent on a few large industrial groups and their suppliers;
- The Group's business, financial condition and results of operations are dependent on tariffs set by the Federal Tariff Service;
- The Group's competitive position and prospects depend on the expertise and experience of its key managers;
- The Group's success depends on its ability to continue to attract, retain and motivate qualified personnel;
- Failure to meet customers' expectations could damage the Group's customer relationships and business reputation;
- The Group may be adversely affected by wage increases in Russia;
- A major accident or derailment could result in substantial property loss, business disruption or reputational damage to the Group;
- The Group's insurance policies may be insufficient to cover certain losses;
- The Group's information technology systems may fail or be perceived to be insecure;
- The information technology software systems used by the Group could cease to be available;
- The Group's ownership of a railcar repair and maintenance depot exposes the Group to greater risk with respect to licenses, uncoupling fees, railcar breakdowns, earlier than scheduled repairs, cargo delivery delays and railcar owners' resulting lost profits;
- The Group is dependent on RZD for the availability and performance of locomotive crews and for the issuance of locomotive permits and approvals.

Compliance and shareholder risks

- The Group's controlling beneficial shareholders may have interests that conflict with those of the holders of the GDRs;
- Adverse determination of pending and potential legal actions involving the Company's subsidiaries could have an adverse effect on the Group's business, revenues, cash flows and the price of the GDRs;
- The Group faces exposure to risks related to VAT recovery issues;
- There is a shareholders' agreement in relation to BTS which limits the Group's ability to direct the affairs of BTS in certain ways and which exposes the Group to risk of detrimental actions by the minority BTS shareholder.

Financial risks

- Expansion of the Group's business may place a strain on its resources;
- The Group's indebtedness, particularly under current market conditions, could adversely affect the Group's operational and financial condition;
- The Group's growth strategy requires significant funding;
- The Group is subject to foreign exchange risk, because part of the Group's borrowings are denominated in US Dollars and most of its expenses and revenue are denominated in Roubles;
- The Group is subject to interest rate risk due to floating rate liabilities in relation to its leases and long-term borrowings;
- The Group may be subject to credit risk due to its dependence on key customers and suppliers;
- The Company is a holding company and its ability to pay dividends or meet costs depends on the receipt of funds from its subsidiaries.

Selected operational information

Rolling stock fleet

	at 31 December 2009	at 31 December 2010	Change	Change, %
OWNED FLEET				
Gondola cars	15,464	20,650	5,186	34%
Rail tank cars	16,372	16,976	604	4%
Hopper cars	370	370	0	0%
Locomotives	58	57	(1)	-2%
Flat cars	120	120	0	0%
TOTAL	32,384	38,173	5,789	18%
ROLLING STOCK LEASED-IN UNDER OPERATING LEASES				
Gondola cars	2,357	8,918	6,561	278%
Rail tank cars	2,474	3,622	1,148	46%
Hopper cars	0	0	0	–
Locomotives	2	1	(1)	-50%
Flat cars	0	0	0	–
TOTAL	4,833	12,541	7,708	159%
TOTAL FLEET	37,217	50,714	13,497	36%
ROLLING STOCK LEASED-OUT UNDER OPERATING LEASES				
Gondola cars	775	780	5	1%
Rail tank cars	5,101	4,887	(214)	-4%
Hopper cars	125	125	0	–
Locomotives	6	4	(2)	-33%
Flat cars	0	20	20	–
TOTAL	6,007	5,816	(191)	-3%
AVERAGE AGE OF OWNED FLEET				
Gondola cars	4.6	4.7	0.1	–
Rail tank cars	7.8	8.4	0.6	–
Hopper cars	3.1	4.1	1.0	–
Locomotives	5.0	5.8	0.7	–
Flat cars	0.7	1.7	1.0	–
TOTAL	6.2	6.3	0.1	–

Operation of rolling stock

	2009	2010	Change	Change, %
FREIGHT RAIL TURNOVER, BILLION TONNES-KM				
Metallurgical cargoes	38.8	42.0	3.2	8%
Ferrous metals	33.0	29.3	(3.7)	-11%
Scrap metal	1.2	2.8	1.6	130%
Iron ore	4.5	9.8	5.3	118%
Oil products and oil	30.4	29.8	(0.5)	-2%
Construction materials	2.2	2.8	0.5	24%
Construction materials – crushed stone	0.8	1.4	0.6	80%
Construction materials – cement	0.6	0.3	(0.3)	-43%
Construction materials – other	0.9	1.1	0.2	21%
Coal (thermal and coking)	7.4	17.7	10.3	139%
Other	2.1	5.1	3.0	146%
TOTAL	80.9	97.4	16.6	20%

	2009	2010	Change	Change, %
TRANSPORTATION VOLUME, MILLION TONNES				
Metallurgical cargoes	12.8	20.0	7.2	57%
Ferrous metals	9.3	11.3	2.0	22%
Scrap metal	1.3	3.1	1.9	144%
Iron ore	2.2	5.6	3.4	154%
Oil products and oil	29.7	28.4	(1.3)	-4%
Construction materials	2.2	3.0	0.9	40%
Construction materials – crushed stone	0.9	1.6	0.8	91%
Construction materials – cement	0.6	0.4	(0.2)	-32%
Construction materials – other	0.7	1.0	0.3	37%
Coal (thermal and coking)	5.8	8.3	2.5	43%
Other	2.3	4.0	1.7	74%
TOTAL	52.8	63.8	11.0	21%

	2009	2010	Change	Change, %
TRANSPORTATION VOLUME BY CARGO CLASS				
Class 1	24%	32%	8%	–
Class 2	53%	42%	-11%	–
Class 3	23%	26%	3%	–

Selected operational information continued

Operation of rolling stock continued

	2009	2010	Change	Change, %
AVERAGE ROLLING STOCK OPERATED				
Gondola cars	14,600	22,543	7,943	54%
Rail tank cars	13,298	13,855	557	4%
Hopper cars	401	244	(157)	-39%
Locomotives	40	40	0	0%
Other cars	66	110	44	67%
TOTAL	28,406	36,793	8,387	30%
AVERAGE NUMBER OF LOADED TRIPS PER RAILCAR				
Gondola cars	24.3	24.8	0.6	2%
Rail tank cars	37.5	36.8	(0.7)	-2%
Hopper cars	19.5	20.8	1.3	7%
TOTAL	30.4	29.3	(1.1)	-4%
AVERAGE DISTANCE OF LOADED TRIP, KM				
Gondola cars	2,280.4	1,974.1	(306.3)	-13%
Rail tank cars	1,015.5	988.7	(26.9)	-3%
Hopper cars	950.2	859.0	(91.2)	-10%
TOTAL	1,537.8	1,504.0	(33.8)	-2%
AVERAGE PRICE PER TRIP				
Average Price per Trip in USD	716.9	770.4	53.5	7%
Average Price per Trip in RUB	22,773	23,403	630	3%
NET REVENUE FROM OPERATION OF ROLLING STOCK BY CARGO TYPE, USD MILLION				
Metallurgical cargoes	178.6*	276.7*	98.1	55%
Ferrous metals	160.6*	217.5*	56.9	35%
Scrap metal	7.6*	24.6*	17.0	224%
Iron ore	10.4*	34.6*	24.2	231%
Oil products and oil	381.7*	419.0*	37.3	10%
Coal (thermal and coking)	23.3*	76.8*	53.5	230%
Construction materials, including cement	8.0*	15.2*	7.2	89%
Other	26.8*	42.4*	15.5	58%
TOTAL	618.5*	830.0*	211.6	34%
NET REVENUE FROM OPERATION OF ROLLING STOCK BY CARGO CLASS				
Class 1	10%	21%	10%	–
Class 2	56%	46%	-10%	–
Class 3	34%	33%	-1%	–

Operation of rolling stock continued

	2009	2010	Change	Change, %
NET REVENUE FROM OPERATION OF ROLLING STOCK BY LARGEST CUSTOMER GROUPS[66]				
TNK-BP	25%	23%	-1%	–
MMK	10%	11%	0%	–
Evraz	10%	9%	-1%	–
Lukoil	10%	9%	-1%	–
Gazpromneft	8%	6%	-2%	–
Rosneft	4%	4%	0%	–
Severstal	3%	4%	2%	–
Ural steel	1%	3%	1%	–
Mechel	1%	1%	0%	–
RITEK	1%	1%	0%	–
Other (including small and medium enterprises)	27%	29%	2%	–
EMPTY RUN RATIO				
Gondola cars	46%	42%	-5%	–
Rail tank cars and hopper cars	114%	108%	-6%	–
TOTAL EMPTY RUN RATIO	72%	62%	-10%	–
EMPTY RUN COSTS, USD MILLION	167.9*	203.4*	35.5	21%
SHARE OF EMPTY RUN KILOMETRES PAID BY GLOBALTRANS	83%	82%	-1%	–

Employees

	at 31 December 2009	at 31 December 2010	Change	Change, %
EMPLOYEES BY DEPARTMENTS (SIMPLIFIED)				
Operations	591	642	51.0	9%
Administrative	359	317	(42.5)	-12%
TOTAL	950	958	8.5	1%

[66] Key customer groups including their affiliates and suppliers.

Definitions

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "net foreign exchange transaction (losses)/gains on financing activities", "share of profit/(loss) of associates", "other gains/(losses) – net", "loss/(gain) on sale of property, plant and equipment" and "(reversal of)/impairment charge on property, plant and equipment".

Adjusted EBITDA Margin (a non-GAAP financial measure) calculated as Adjusted EBITDA divided by Adjusted Revenue.

Adjusted Revenue (a non-GAAP financial measure) is calculated as "revenue" less "infrastructure and locomotive tariffs: loaded trips".

Average Distance of Loaded Trip is calculated as the sum of distances of all loaded trips for a period divided by the number of loaded trips for the same period.

Average Number of Loaded Trips per Railcar is calculated as total number of loaded trips in the relevant period divided by Average Rolling Stock Operated.

Average Price per Trip is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period in the respective currency.

Average Rolling Stock Operated is calculated as the average weighted (by days) number of rolling stock available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

Classes of Cargo: Tariff 10-01 differentiates between three classes of cargo – Classes 1, 2 and 3. Class 3 (which includes ferrous metals and scrap metal) attracts the highest prices and Class 1 (which includes iron ore and coal) the lowest.

- Examples of Class 1 cargo: energy coal, coking coal, iron ore, natural construction materials (including crushed stone and sand), cement, wood, chemical raw materials for fertilizer production.
- Examples of Class 2 cargo: crude oil, gasoline, kerosene, diesel fuel, heating oil, fertilizers, bricks, agricultural machinery and equipment, asphalt, agricultural products, cast iron.
- Examples of Class 3 cargo: ferrous and non-ferrous metals and scrap metal, construction materials for industrial production, metal construction products, lubricants and oils, timber production, mineral wax and other dark oil products, machinery and equipment (except agricultural), automobiles, rubber, plastics and paint materials, organic and non-organic paint materials, alcohol products, soft goods.

Compound Annual Growth Rate (CAGR) is an average growth rate over a period of years, calculated as ratio of the final value to the starting value raised to the power of (1/compound period), then subtracting 1 from the resulting number.

EBITDA (a non-GAAP financial measure) represents "profit for the period" before "income tax expense", "finance costs – net" (excluding "net foreign exchange transaction (losses)/gains on financing activities"), "depreciation of property, plant and equipment" and "amortisation of intangible assets".

Empty Run or Empty Runs means movement of railcars without cargo for the whole or a substantial part of the journey.

Empty Run Costs (a non-GAAP financial measure, meaning costs payable to OAO Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "empty run trips, other tariffs and services provided by other transportation organisations" component of "cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation and rolling stock leased in or leased out.

Empty Run Ratio is calculated as the total of empty trips in kilometres by respective rolling stock type divided by total loaded trips in kilometres of such rolling stock type. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

Functional Currency is defined as the currency of the primary economic environment in which the entity operates, for Globaltrans Investment PLC this is the Russian Rouble.

Net Debt (a non-GAAP financial measure) is defined as the sum of current and non-current borrowings (including interest accrued) less "cash and cash equivalents".

Net Revenue from Operation of Rolling Stock (a non-GAAP financial measure) is defined as the sum of "revenue from railway transportation – operators services (tariff borne by the Group)" and "revenue from railway transportation – operators services (tariff borne by the client)" less "infrastructure and locomotive tariffs: loaded trips" (excluding the impact of the transfer and consolidation of AS Spacecom and AS Spacecom Trans for the year of 2008 as AS Spacecom discontinued its freight rail transportation services in the first half of 2008).

Net Working Capital (a non-GAAP financial measure) is calculated as the sum of the current portions of "inventories", "current income tax assets", "trade receivables - net", "prepayments - third parties", "prepayments - related parties", "other receivables - net", "VAT recoverable", less the sum of the current portions of "trade payables to third parties", "trade payables to related parties", "advances from customers", "advances from related parties", "accrued expenses", "other payables to related parties", "other payables to third parties.

Operating Cash Costs (a non-GAAP financial measure) represent operating cost items payable in cash and calculated as "total cost of sales, selling and marketing costs and administrative expenses" less "infrastructure and locomotive tariffs: loaded trips", "depreciation of property, plant and equipment", "amortisation of intangible assets", "(reversal of)/impairment charge for receivables", "loss/(gain) on sale of property, plant and equipment", "impairment charge for property, plant and equipment".

Operating Non-Cash Costs (a non-GAAP financial measure) include line items such as "depreciation of property, plant and equipment", "amortisation of intangible assets", "(reversal of)/impairment charge for receivables", "loss/(gain) on sale of property, plant and equipment", "impairment charge for property, plant and equipment".

Other Operating Cash Costs (a non-GAAP financial measure) include line items such as "operating lease rentals – office", "auditors' remuneration", "advertising and promotion", "communication costs", "information services", "taxes (other than income tax and value added taxes)", "cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)" and "other expenses".

Other Tariffs and Services Provided by Other Transportation Organisations (a non-GAAP financial measure) is presented as part of the "empty run trips, other tariffs and services provided by other transportation organisations" component of "cost of sales" reported under EU IFRS.

Owned Fleet is defined as rolling stock fleet owned and leased in under finance lease as of the end of period (it includes railcars and locomotives unless otherwise stated).

Share of Empty Run Kilometres Paid by Globaltrans is defined as the percentage of empty run kilometres paid by Globaltrans divided by the total amount of empty run kilometres incurred by the fleet operated by Globaltrans (not including costs of relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out) in the relevant period.

Total Empty Run Ratio is calculated as total kilometres travelled empty divided by total kilometres travelled loaded by the fleet operated by Globaltrans (not including costs of relocation of rolling stock in and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out) in the relevant period.

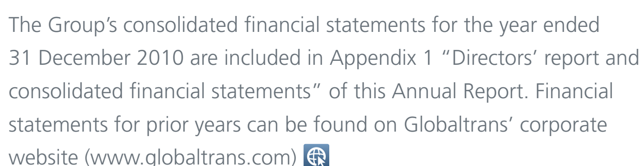
Total Fleet is defined as the total rolling stock owned and leased in under finance and operating leases as of the end of period (it includes railcars and locomotives unless otherwise stated).

Transportation Volume is a measure of freight carriage activity over a particular period measuring weight of cargo carried in million tonnes.

Presentation of financial and other information

Financial information

All financial information presented in this Annual Report is derived from the consolidated financial statements of Globaltrans Investment PLC ("the Company" or, together with its subsidiaries, "Globaltrans" or "the Group") and prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113 ("EU IFRS").



The Group's consolidated financial statements for the year ended 31 December 2010 are included in Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report. Financial statements for prior years can be found on Globaltrans' corporate website (www.globaltrans.com)

The parent company financial statements for the year ended 31 December 2010 are included in Appendix 2 "Directors' report and parent company financial statements for the year ended 31 December 2010".

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

The consolidated financial statements are presented in US Dollars, which the Group's management believes to be the most useful for readers of the financial statements. The functional currency of the Company, its Cyprus and Russian subsidiaries is the Rouble. The Estonian Subsidiaries had the Estonian Kroon (EEK) as their functional currency until 31 December 2010.

Non-GAAP financial information

In this Annual Report certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures") are reported. The Group's management believes that these non-GAAP measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. The following non-GAAP measures have been used in this Annual Report as supplemental measures of the Group's operating performance: Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Revenue, EBITDA, Empty Run Costs, Net Debt to Adjusted EBITDA ratio, Net Revenue from Operation of Rolling Stock, Net Working Capital, Operating Cash Costs, Operating Non-Cash Costs, Other Tariffs and Services Provided by Other Transportation Organisations. All non-GAAP financial information is calculated on the basis of EU IFRS financial statements and/or management accounts.

Non-GAAP financial information requiring additional explanation or definitions are marked with capital letters and the definitions and explanations are provided on page 42 of this Annual Report.

Other companies in the freight rail transportation sector may calculate the above non-GAAP measures differently or may use each of them for different purposes than the Group, limiting their usefulness as comparative measures.

Operational and market information

Globaltrans reports certain operational information which is presented to illustrate the changes in the Group's operational and financial performance during the reporting periods and is derived from management accounts.

Certain abbreviations of operational information are marked with initial capital letters with definitions provided on page 42 of this Annual Report.

Market share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation ("Rosstat") as the denominator.

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

Cautionary note

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

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

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

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

Governance

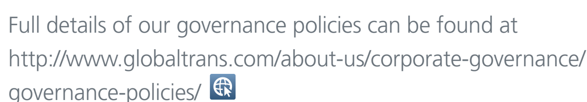
Board of Directors

The Board of Directors of Globaltrans believes that good corporate governance is essential to running a successful company and it is committed to maintaining high standards of corporate governance throughout the Company and its subsidiaries.

Corporate governance policies

In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance (the "Code") which guarantees that the interests of all company shareholders are given due consideration. Although the Code is based on principles recommended by the UK Combined Code on Corporate Governance, this does not constitute voluntary compliance with such Combined Code.

Our corporate governance policies and practices are designed to ensure that we uphold our responsibilities to our shareholders. All employees are required to comply with the guidelines and management is responsible for ensuring that all departments adhere to these standards. These key principles are promoted and applied across all levels of the Group in order to establish effective and transparent corporate governance. In January 2010 the Board of Directors has supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders, which aims to ensure fair treatment of rights of non-controlling shareholders of the Company.



Full details of our governance policies can be found at http://www.globaltrans.com/about-us/corporate-governance/governance-policies/

Board of Directors

Globaltrans is managed by its Board of Directors ("the Board") which is collectively responsible to the shareholders for the success of the Group.

The Board's role is to:

- Provide entrepreneurial leadership, set the overall strategy, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;
- Establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- Review management's performance; and
- Set the Group's values and standards, and ensure that obligations to shareholders and others are understood and met.

The Board regularly considers strategic matters, budgets, key projects and major investments and monitors performance against delivery of agreed key targets. The Board reviews assessment of the Company's principal risks and assesses the adequacy of internal controls. The Board has overall responsibility for ensuring that a framework of good corporate governance is in place, including the processes for financial reporting and compliance with relevant regulations.

The Board understands the need to have an appropriate balance between Executive and Non-Executive Directors, together with the presence of Independent Directors, in order to represent the interests of shareholders and to govern the Group in the most effective way. The Non-Executive Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning. A brief description of the background of each director is presented in the "Composition of the Board" section on the pages 49-51.

There is no provision in the Company's Articles of Association for retirement of Directors by rotation; however, in accordance with the Terms of reference of the Board of Directors all Board members are required to submit for re-election at least once every three years. Should a Non-Executive Director serve any term beyond six years, his re-election would be subject to particularly rigorous review. In practice, all current appointments are for one year and all Directors will stand for re-election at the forthcoming Annual General Meeting of shareholders of the Company.

The Board of Directors report is presented in full in Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report.

Board of Directors continued

Composition of the Board

The Board comprises seven members, four of whom are Non-Executive Directors (including the Chairman). Two of the Non-Executive Directors are considered to be independent in that the Board considers that they are able to exercise objective business judgment and provide independent challenge to management in order to support the best interests of the Company and that there are no relationships with the Company, its related companies or officers that could interfere, or be reasonably perceived to interfere their judgment. The Board considers that the current balance of executive and non-executive influence which exists is appropriate for the Company, taking into account its size and status. Whilst all Directors share an equal responsibility for the stewardship of the Company, the Non-Executive Directors perform an essential role in safeguarding the long term interests of shareholders. They actively participate in the development of strategic objectives and monitor the performance of executive management in achieving these objectives. Their involvement is particularly important in ensuring that the strategies proposed by the Management are constructively challenged, fully discussed and examined, and take account of the long term interests, not just of shareholders, but also of employees, customers, suppliers and the communities in which the Company conducts its business.

Whilst the Company is controlled by Transportation Investments Holding Limited, its immediate parent company, the investment of minority shareholders is fairly represented through the representation of Independent Directors.

The Board reviews the size of the Board on an annual basis, and considers that the present size is appropriate for the current scope and nature of the Group's operations.

The Company separates the positions of the Chairman and Chief Executive Officer to ensure an appropriate segregation of roles and a clear division of responsibilities. The Chairman, Mr. Alexander Eliseev, is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He is also responsible for: ensuring that the Board is kept properly informed and consulted on all decisions reserved to it; facilitating the contribution of Non-Executive Directors; promoting constructive relations between the Executive and Non-Executive Directors and ensuring effective communication with shareholders. The Chief Executive Officer, Mr. Sergey Maltsev, is responsible for the day-to-day management of the Group and its operations and for implementing the strategy laid down by the Board.

At the Company's Annual General Meeting on 3 May 2010 all Directors were duly re-elected.

Elia Nicolaou has been acting as the Company Secretary and Secretary to the Board since March 2008.

The Board understands the need to have an appropriate balance between Executive and Non-Executive Directors, together with the presence of Independent Directors, in order to represent the interests of shareholders and to govern the Group in the most effective way.

Executive Directors

Sergey Maltsev

Chief Executive Officer, member of the Board, Executive Director

Sergey Maltsev (aged 48) co-founded Globaltrans in 2004 and is one of the principal architects of the private rail freight market in Russia. He has served as CEO and member of the Board of Directors since 2008. Sergey is a third generation railwayman and has spent more than 25 years working in the rail sector and has been recognised for his contribution to the development of the rail industry by being made an "Honored Railwayman of Russia". Sergey continues to play an active role in Russian rail market reform and since 2009 he has served as Chairman of the presidium of the non-profit partnership "Council of Railway Operators Market". He holds a degree in railway engineering.

Mikhail Loganov

Member of the Board, Executive Director, member of the Nomination Committee

Mikhail Loganov (aged 30) has served as an executive member of the Board and as a member of the Nomination Committee since March 2008. He has more than nine years of financial experience. Mr. Loganov joined the Group in June 2004 as a finance manager at OOO Sevtekhnotrans. He graduated from the University of Brighton, England, and has a BA honours degree in Business Studies with Finance. Prior to joining the Group, Mr. Loganov worked for American Express (Europe) Ltd in the UK. He also holds the position of Non-Executive member of the Board of Directors of Global Ports Investments PLC, Cyprus and is the Chairman of its Audit Committee.

Konstantin Shirokov

Member of the Board, Executive Director

Konstantin Shirokov (aged 36) has served as an executive member of the Board and the Company's internal auditor since March 2008. He has more than eight years of management experience. Mr. Shirokov graduated from the Finance Academy under the Government of the Russian Federation. He also studied Business Management at Oxford Brookes University Business School, England. Prior to joining Globaltrans, Mr. Shirokov worked in senior finance roles at Metsnabservice, Mechel and as an economist for Glencore International.

Board of Directors continued

Non-Executive Directors

Alexander Eliseev

Chairman of the Board, Non-Executive Director

Alexander Eliseev (aged 43) co-founded Globaltrans together with Sergey Maltsev in 2004 and has been actively involved in reforming the Russian rail market and introducing market-based principles in rail transportation. He has served as Chairman of the Board of Directors of Globaltrans since 2008. He is also Chairman of the Boards of the New Forwarding Company and Sevtekhnotrans, two other member companies of the Globaltrans Group. Alexander Eliseev has spent 15 years working in senior management positions, mostly in the rail sector. He holds a degree in biophysics.

Michael Zampelas

Member of the Board, Senior Independent Non-Executive Director, Chairman of the Audit Committee, member of Remuneration and Nomination Committees

Michael Zampelas (aged 74) was appointed as the Senior Independent Non-Executive Director on the Board in March 2008. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Mr. Zampelas has more than thirty years of management experience, including as founding member, Chairman and Managing Partner of accounting and consulting firm Coopers & Lybrand (which later became PricewaterhouseCoopers) in Cyprus and Athens. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales. Between 2002 and 2006 Mr. Zampelas was the elected mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus.

The Non-Executive Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning.

Dr. Johann Franz Durrer

Member of the Board, Independent Non-Executive Director, Chairman of the Remuneration and Nomination Committees

Johann Franz Durrer (aged 72) was appointed as an Independent Non-Executive Director of the Board in March 2008. He is Chairman of the Remuneration and Nomination Committees. Dr. Durrer has more than thirty years of management experience. He graduated from the University of Zurich with a doctorate in economics and is a member of the Swiss Fiduciary Association. He started his career in 1957 with the Union Bank of Switzerland in Geneva. In 1970 Dr. Durrer founded his own company Fidura Treuhand AG which provides bookkeeping, auditing, and financial services. He is the Board member of the international transport company IMT-Dienst AG. He is currently an Executive Board member of several privately held companies.

Elia Nicolaou

Member of the Board, Non-Executive Director, member of the Audit Committee, Company Secretary, Secretary to the Board

Elia Nicolaou (aged 32) was appointed as a Non-Executive Director of the Board in March 2008, and is a member of the Audit Committee. She also acts as Company Secretary for the Group. She is currently the Managing Director at Amicorp (Cyprus) Ltd. Ms. Nicolaou has more than nine years of legal, corporate administration and management experience. She graduated from the University of Nottingham, England, and has an LLB in Law. Ms. Nicolaou also has an LLM in Commercial and Corporate Law from the University College London, England, and an MBA from the Cyprus International Institute of Management. Prior to joining Amicorp (Cyprus) Ltd, Ms. Nicolaou worked as the Head of the Corporate Legal Department at Polakis Sarris LLC and a lawyer at C. Patsalides LLC. She further participates on various Boards of the Cyprus Chamber of Commerce Associations.

Board of Directors continued

The Board performance in 2010

The Board meets at least four times a year. Fixed meetings are scheduled at the start of each year. Ad hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings.

The Articles of Association of the Company allow directors to participate in a Board meeting by telephone conference or via video-conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the directors' physical presence at the meeting.

In 2010 the Board met formally 16 times to review current performance and to discuss and approve important business decisions. In 2010 these included:

- Quarterly review of the financial and operational performance of the Group;
- Review and approval of the Group's annual budget;
- Approval of the material agreements for the acquisition of rolling stock by the subsidiaries of the Group and amendments to such agreements as well as terms of financing agreements with financial institutions;
- Adoption of the policy on treatment of the rights of minority shareholders of the Company;
- Consideration and approval of the 5-year Rouble denominated non-convertible bond issue by New Forwarding Company, a subsidiary of the Group.

The attendance of Directors during 2010 is set out in the table below.

Board evaluation

The performance of the Board is subject to annual assessment. The evaluation process is conducted through a mix of self assessment and annual appraisals. The Non-Executive Directors, led by the Senior Independent Non-Executive Director, are responsible for the performance evaluation of the Chairman of the Board. No significant issues were identified and the Board concluded that it was working effectively.

	Board of Directors		Nomination Commitee		Remuneration Committee		Audit Commitee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Alexander Eliseev	16	8	–	–	2	2	–	–
Michael Zampelas	16	16	2	2	2	2	5	5
Johann Franz Durrer	16	16	2	2	2	2	–	–
Sergey Maltsev	16	2	–	–	–	–	–	–
Mikhail Loganov	16	16	2	2	–	–	–	–
Elia Nicolaou	16	16	–	–	–	–	5	5
Konstantin Shirokov	16	16	–	–	–	–	–	–

The Board's role is to provide entrepreneurial leadership, set the overall strategy, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives.

Board and Management remuneration

Directors serve on the Board pursuant to the letters of appointment which are subject to approval by the shareholders at the Annual General Meeting. Such letters of appointment specify the terms of appointment and the remuneration of Directors. Appointments are for one year.

Levels of remuneration for Non-Executive Directors reflect the time commitment, responsibilities of the role and membership of the respective committees of the Board. Directors are also reimbursed for expenses associated with discharge of their duties. Non-Executive Directors are not eligible for bonuses, retirement benefits or to participate in any incentive plans operated by the Company.

The shareholders of the Company approved the remuneration of the members of the Board at the Annual General Meeting of shareholders held on 3 May 2010.

Please refer to Note 31 of the consolidated financial statements (Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report) for details of remuneration paid to the Board and key management.

Directors' interests in shares

The interests in the share capital of Globaltrans Investment PLC and its group companies, both direct and indirect, of those who were Directors as at 31 December 2010 is shown below.

Dealings in securities

The Company has adopted an internal code of practice on dealings in the listed securities (including GDRs) of Globaltrans Investment PLC. The Group's internal code prohibits its directors and officers from dealing in listed securities of the Group while in possession of unpublished material or price-sensitive information in relation to such securities and during the "closed period", which is defined as 60 days before the date of announcement of annual and interim results of the Group and officers are also prohibited from dealing in the Group's securities on short-term considerations.

	Type of holding	Shares/Global Depositary Receipts held at 31 December 2010[67]	Shares/Global Depositary Receipts held at 31 December 2009[67]
Alexander Eliseev	Through shareholding in Envesta Investments Limited and other entities controlled by him	11,318,909	11,318,909
Sergey Maltsev	Through shareholding in Envesta Investments Limited	11,658,456	11,658,456
Johann Franz Durrer	GDRs of Globaltrans Investment PLC	100,000	100,000

[67] Total number of issued shares of the Company as at 31 December 2010 and 31 December 2009 was 158,135,533

The Board committees

The Board has delegated specific responsibilities to three Committees, namely the Audit, Nomination and Remuneration Committees. Information on each of the three Committees is set out below. The Board accepts that while these Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the entire Board.

Audit Committee

The Audit Committee comprises two Directors, one of whom is independent, and meets at least four times each year. The Audit Committee is chaired by Mr. Zampelas and is also attended by Ms. Nicolaou. The Audit Committee is responsible for considering, amongst other matters: the integrity of the Company's financial statements, including its annual and interim accounts, and the effectiveness of the Company's internal controls and risk management systems; auditors' reports; and the terms of appointment and remuneration of the auditor.

The Committee supervises, monitors and advises the Board on risk management and control systems and the implementation of codes of conduct. In addition, the Audit Committee supervises the submission by the Company of financial information and a number of other audit-related issues. The Audit Committee is also responsible for assessing the efficiency of the performance of the Chairman of the Board.

The Audit Committee met five times in 2010, including three meetings attended by the external auditors of the Company. The principal issues, which were considered during 2010, were:

- Review of the external auditor's letter to the Audit Committee following their full year audit for 2009;
- Review of the financial statements of the Company and consolidated financial statements of the Group for 2009 and recommended approval of the same to the Board;
- Review of the interim financial results for first six months of 2010 and recommended approval to the Board;
- Review of the terms of appointment of the external auditor of the Company for the year 2010 and recommended re-appointment to the Board who in turn proposed the re-appointment of the external auditors to the Annual General Meeting of shareholders of the Company;
- Oversight of the reporting process, review of the audit plan;
- Review of press-releases of the Group of financial nature;
- Risk of internal controls and risk management process;
- Review of the internal audit function, internal audit model and plan and report on activities of the internal audit function for the year 2009.

External Auditor

The Audit Committee manages the relationship with the external auditor on behalf of the Board. It considers the reappointment of the external auditor each year, as well as remuneration and other terms of engagement, and makes a recommendation to the Board. Shareholders are asked to approve the reappointment of the auditor each year at the Annual General Meeting.

Internal Audit

The Internal Audit function is carried out internally by Group's Internal Audit Service ("IAS"). IAS is responsible for testing the systems of risk management, internal control and corporate governance processes of the Group with a view to obtaining a reasonable assurance that:

- The risk management system functions efficiently;
- Material financial, management and operating information is accurate, reliable and up-to-date;
- Actions of employees and management bodies are in compliance with the Group's policies, standards and procedures and the applicable laws;
- Resources are procured reasonably, used efficiently and their safe-keeping is fully guaranteed;
- Group companies conduct their business in compliance with the applicable laws.

Nomination Committee

The Nomination Committee comprises three Directors and meets at least once each year. The Nomination Committee is chaired by Dr. Durrer the other members being Mr. Zampelas and Mr. Loganov. The Committee was set up on 21 March 2008 and its remit is to prepare selection criteria and appointment procedures for members of the Board and to review on a regular basis the structure, size and composition of the Board. In undertaking this role, the Committee refers to the skills, knowledge and experience required of the Board given the Company's stage of development and makes recommendations to the Board as to any changes. The Committee also considers future appointments in respect of the Board's composition and makes recommendations regarding the membership of the Audit and Remuneration Committees.

The Nomination Committee met twice in 2010. Principal issues considered during the meetings were the review of the Annual Report for the year 2009 and the current composition of the Board and its Committees. It has also provided recommendations to the Board on re-nomination of Directors prior to the Annual General Meeting of shareholders, which considered re-appointments of Directors in 2010.

Remuneration Committee

The Remuneration Committee comprises three Directors and meets at least once each year. The Remuneration Committee is chaired by Dr. Durrer, and the other members are Mr. Zampelas and Mr. Eliseev. The Committee was set up on 21 March 2008 and its remit is the determination and review of, amongst other matters, the remuneration of Executive Directors and review of the Company's remuneration policies. The remuneration of Independent Directors is a matter for the Chairman of the Board and the Executive Directors. No director or manager may be involved in any decisions as to his/her own remuneration.

The Remuneration Committee met twice in 2010 to discuss to consider the appropriateness of the level of remuneration of the Executive Directors of the Company and senior management of the Group.

Risk management

We believe that the identification and management of risks is central to achieving the corporate objective of delivering long-term value to shareholders. Each year, the Board reviews and considers the risk register for the whole Group.

Risks are defined as the possibility that an action or inaction would adversely affect the achievement of corporate goals. The Board has delegated the oversight of risk management to the Audit Committee. In addition, it delegated to the Chief Executive Officer responsibility for the effective and efficient implementation and maintenance of the risk management system. The Directors, through the Audit Committee, review the systems that have been established for this purpose and regularly review their effectiveness. The Board has adopted a Risk Management Policy that provides a consistent framework for the identification, assessment and management of risks. Globaltrans bases its risk management activity on a series of well-defined risk management principles, derived from experience, best practice and corporate governance principles. The Group's risk management principles consist of nine interdependent components:

- **Enterprise-wide.** Risks that the Group is facing should be managed on an enterprise-wide basis as a continuous and developing process which runs throughout the Group's strategy and the implementation of that strategy;
- **Systematic and structured.** Risk management should involve recognised processes and activities in a systematic, methodical way that ensures that the results of risk management activities are reliable, robust and comparable;
- **Based on upside and downside approach.** Risk management should evaluate the potential upside and downside of all risks which can affect the Group. It should increase the probability of success and reduce both the probability of failure and the uncertainty of achieving the Group's overall objectives. Risk management activity should include development and implementation of risk response actions to remove or reduce all risks the Group is facing, transfer them to a third party or accept them;
- **Forward thinking approach.** Risk management should be forward thinking. It should involve identification and preparation for what might happen rather than always managing retrospectively. Risk management should encourage the Group to manage proactively rather than reactively;
- **Aligned with the Group's objectives.** Risk management should be aligned with the Group's objectives. Risk management should provide reasonable assurance regarding the achievement of the Group's objectives;
- **Integrated into the Group's business.** Risk management should be embedded in all the Group's practices and business processes so that it is relevant, effective, efficient and sustained. In particular, risk management should be embedded in key business processes, including business and strategic planning, budgeting and decision-making. Everyone should be responsible and accountable for managing the risks in their activities;
- **Integrated into corporate culture.** Risk management should be a part of the Group's corporate culture. All employees should be aware of the relevance of risk to the achievement of their objectives;
- **Clear and plain.** Risk management principles, methods and tools should be clear and plain for the Group's employees;
- **Evolving.** The Group's risk management system should be evolving. This is an ongoing process and it is recognised that the level and extent of the risk management system will evolve as the Group evolves.

Globaltrans uses a portfolio approach to the management of its risks, in a holistic, enterprise-wide manner. A portfolio approach analyses and aggregates risks by type and tries to achieve an overall balance of risk and return. Globaltrans defines four types of risks: strategic, operational, compliance and financial risks.

For the main risks facing the Group, please refer to the "Principal risks and uncertainties" section of this Annual report and Note 3 "Financial risk management" included in Appendix 1 "Directors' report and consolidated financial statements for the year ended 31 December 2010" of this Annual Report.

Senior management

Globaltrans' management team combines an entrepreneurial approach with an exceptionally high level of professional experience gained over many years spent in the rail industry.

Sergey Maltsev

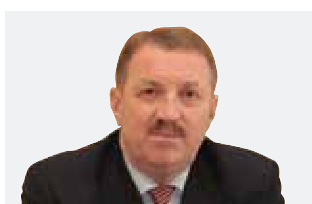
Chief Executive Officer, member of the Board, Executive Director

Sergey Maltsev (aged 48) co-founded Globaltrans in 2004 and is one of the principal architects of the private rail freight market in Russia. He has served as CEO and member of the Board of Directors since 2008.

Sergey is a third generation railwayman and has spent more than 25 years working in the rail sector and has been recognised for his contribution to the development of the rail industry by being made an "Honored Railwayman of Russia". Sergey continues to play an active role in the Russian rail market reform and since 2009 he has served as Chairman of the presidium of the non-profit partnership "Council of Railway Operators Market". He holds a degree in railway engineering.

Vladimir Prokofiev

Chief Executive Officer of BaltTransServis

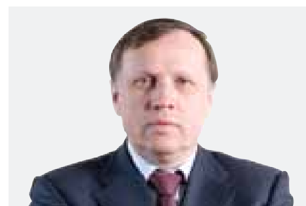


Vladimir Prokofiev (aged 62) has served as CEO of BaltTransServis since its establishment in 1999. With more than 42 years experience in the rail sector he is one of the industry's most experienced managers. He began his career as a railway worker subsequently advancing to railway station manager and then chief rail engineer. In 1991, he joined the private sector and in 1997 he was one of the founders and CEO of the pioneering private oil freight rail operator in Russia. He is a recipient of the "Honored Railwayman of Russia" Award in recognition for his contribution to the rail industry.

Vladimir Prokofiev has been actively involved in the development and regulation of the rail market for many years. In 2001, he was behind the establishment of the Association of Carriers and Rolling Stock Operators of Russia, which now has over 20 members. He holds a degree in rail engineering.

Valery Shpakov

First Deputy Chief Executive Officer, CEO of New Forwarding Company



Valery Shpakov (aged 54) joined New Forwarding Company in 2003 and has served as its CEO since 2007. He is an experienced manager with a track record of over 30 years in the rail industry.

He began his career in the private sector in 1999 and has held managerial positions at various companies within the transport sector. In 2006, the Russian Transport Ministry awarded Valery Shpakov the "Honored Railwayman Award of Russia" in recognition of his important contribution to the development of the rail transport sector. Furthermore, the Transport Ministry also awarded him with the Commemorative Pin «200 Years of Waterborne and Land Transport Management», in recognition for the role he has played in rail market reform and in improving railway operation management processes. He holds a higher education degree in rail operations.

Alexander Shenets

Chief Financial Officer

Alexander Shenets (aged 33) is the CFO of Globaltrans and has served in this capacity since the Group's establishment.

He has 10 years financial experience, mostly gained within the rail sector. Prior to joining Globaltrans, he held various management positions at a number of transport and wholesale enterprises. He holds a degree in Applied Mathematics from Moscow State University. He also has a PhD degree in Philosophy from Bauman Moscow State University and holds an MBA degree from the Graduate School of Business Administration at Moscow State University.

Corporate structure

The Group's corporate structure is well tailored to ensure the effective operation and extraction of synergies across the Group.

Globaltrans Investment PLC is a Cyprus-registered company which operates through its subsidiaries located in Russia, Ukraine and Estonia.

The Group's subsidiaries operate in the local markets under their own brands and identities and are managed as largely autonomous companies within the Group. This approach encourages entrepreneurial flair within a well defined performance framework.

Source: Globaltrans.

OJSC New Forwarding Company is one of Russia's leading freight rail operators specialising in the rail transportation of various bulk cargoes, including metallurgical cargoes, coal, construction materials, and oil products and oil. New Forwarding Company is Globaltrans' key operating centre of gondola cars, which operates through its nine branches and nine representative offices across Russia and its headquarters in Moscow.

LLC BaltTransServis is one of Russia's leading freight rail operators of rail tank cars, specialising in shipping oil products and oil, notably fuel oil, diesel and gasoline, and provision of various logistics services and distribution to shipping terminals. BaltTransServis operates through its headquarters in Saint Petersburg, and has one branch and eight representative offices across Russia. Globaltrans acquired a 50% economic interest and controlling stake in BaltTransServis in December 2009.

OOO Sevtekhnotrans is another Russian based subsidiary of Globaltrans. Sevtekhnotrans is mainly engaged in freight forwarding and rolling stock leasing services.

AS Spacecom and AS Spacecom Trans are Estonia registered companies engaged in the rail tank car leasing business in the CIS countries. Globaltrans acquired stakes in Spacecom and Spacecom Trans in December 2008.

Ukrainian New Forwarding Company LLC is a Ukrainian subsidiary of Globaltrans which provides freight rail transportation and certain ancillary services to Ukrainian companies and, in addition, facilitates the process of finding return freight cargoes for railcars returning from Ukrainian destinations.

[68] 50% effective economic interest; controlled by the Group via majority shareholdings held by the Company in intermediary holding companies of BTS.
[69] Formerly AS Intopex Trans.

Corporate responsibility

Our vision is to be the leading private freight rail group in Russia and the partner of choice for our customers and, in so doing, create long-term value for shareholders. At Globaltrans, we recognise that adopting a responsible approach directly contributes to the success of our business. In order to achieve this we are committed to operating the best corporate social responsibility practices, and strive to treat our stakeholders and society in general in a fair and ethical way. As part of our strategy of social development and investment, we have implemented programmes in various areas of our business.

People

As a service organisation, we recognise that our employees are vital to the continuing success of Globaltrans. We place great emphasis on staff selection and training and we are committed to ensuring that all employees have the opportunity to maximise their potential and develop their careers within the Group.

We provide our employees with an entrepreneurial and creative corporate culture which gives them a framework within which to utilise their own strengths in the organisation.

We continue to implement an effective mentoring system which ensures there is a continuous exchange of knowledge and sharing of experience between senior and junior staff.

Our motivation and reward system is designed to provide adequate compensation and rewards to the best performing employees. Our reward packages are highly competitive in the marketplace.

We strive to maintain a positive corporate culture and a happy, content workforce, which is reflected in the scope of Globaltrans' remuneration and benefits packages.

Health and Safety

The Group is committed to operating high standards of health and safety, designed to minimise the risk of injuries and ill health of its employees and any other persons who come into contact with the Group. The Group aims to meet or exceed all legal and industry requirements and carries out regular assessments to ensure compliance with Group health and safety procedures.

Community

In keeping with its emphasis on contributing to social wellbeing, our Group companies support various initiatives for cultural and public entertainment events and the promotion of a healthy way of life. For instance in 2010 New Forwarding Company became a sponsoring partner for the European Judo Championships for Army, Police and Fire Forces that took place in Moscow; our other subsidiary BTS supports the Saint Petersburg Basketball Federation. In addition we actively participate in various industry initiatives; in 2010 New Forwarding Company became an official partner of road rally "Way to Ocean" devoted to completion of the federal motorway from Chita to Khabarovsk (2,100 km). We also actively participate in various philanthropic activities. Our Group companies have supported and assisted orphanages in various regions of Russia for many years. We also provide regular support to pre-school educational institutions for underprivileged children and actively participate in various social and medical rehabilitation programmes.

Environment

The Group believes that, in general, its operations do not create potential environmental liabilities. Although its railcars or locomotives operated by its subsidiaries may sometimes transport environmentally sensitive materials, any spillage or leakage of such materials is the responsibility of RZD as it is the only entity recognised as a railway carrier in Russia and bears the risk of environmental liabilities. The Group believes that it is in compliance with applicable environmental legislation.

Appendix 1: Directors' report and consolidated financial statements

for the year ended 31 December 2010

Contents

Directors' report and consolidated financial statements for the year ended 31 December 2010

Board of Directors and other officers	1
Report of the Board of Directors	2
Directors' responsibility	5
Independent auditor's report	6
Consolidated income statement	8
Consolidated statement of comprehensive income	9
Consolidated balance sheet	10
Consolidated statement of changes in equity	11
Consolidated cash flow statement	12

Notes to the consolidated financial statements

1.	General information	13
2.	Basis of preparation and summary of significant accounting policies	13
3.	Financial risk management	24
4.	Critical accounting estimates and judgements	27
5.	Segmental information	27
6.	Expenses by nature	30
7.	Other gains – net	31
8.	Employee benefit expense	32
9.	Finance income and costs	32
10.	Income tax expense	32
11.	Net foreign exchange losses	33
12.	Property, plant and equipment	34
13.	Intangible assets	35
14.	Investment in associate	36
15.	Non-current assets held for sale	36
16.	Financial instruments by category	36
17.	Credit quality of financial assets	37
18.	Trade and other receivables	38
19.	Inventories	40
20.	Cash and cash equivalents	40
21.	Share capital and share premium	40
22.	Dividends	40
23.	Deferred gains	41
24.	Borrowings	41
25.	Deferred income tax	43
26.	Trade and other payables	44
27.	Earnings per share	44
28.	Business combinations	44
29.	Contingencies	44
30.	Commitments	47
31.	Related party transactions	47
32.	Common control transaction	51
33.	Net assets attributable to non-controlling participants in redeemable shares	52
34.	Events after the balance sheet date	52

Board of Directors and other officers

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Michael Zampelas
Senior Independent non-executive Director
Chairman of the Audit Committee
Member of Remuneration and Nomination Committees

Dr. Johann Franz Durrer
Independent non-executive Director
Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Mr. Sergey Maltsev
Executive Director
Chief Executive Officer

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

Ms. Elia Nicolaou
Non-executive Director
Member of the Audit Committee

Mr. Konstantin Shirokov
Executive Director

Board support

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

Company Secretary

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

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2010. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

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

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

The net profit of the Group for the year ended 31 December 2010 was US$225,940 thousand (2009: US$121,173 thousand). On 31 December 2010 the total assets of the Group were US$1,515,341 thousand (2009: US$1,264,968 thousand) and net assets were US$883,965 thousand (2009: US$711,568 thousand).

The financial position, development and performance of the Group as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

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

The Group's contingencies are disclosed in Note 29 to the consolidated financial statements.

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Group for the foreseeable future. The Group's strategic objective is to strengthen its position as a leading private freight rail group in Russia. The Group intends to continue its return-oriented expansion pursuing the strategy of opportunistic growth. The Group will also continue its focus on effective fleet management.

Results

The Group's results for the year are set out on pages 8 and 9. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

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

No interim dividends were declared by the Board of Directors during the year ended 31 December 2010.

In May 2010 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2008 in the amount of 15.177 US cents per ordinary share, amounting to a total dividend of US$24,000,230.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of US$58,510,147.

Share capital

As at 31 December 2010 and 31 December 2009 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2010 and 31 December 2009 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share.

Report of the Board of Directors continued

The role of the Board of Directors

The Group is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Group.

The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Group's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The Board comprises seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2010 and 31 December 2009 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2010.

There is no provision in the Company's Articles of Association for retirement of Directors by rotation; however, in accordance with the Terms of reference of the Board of Directors all board members are required to submit for re-election at least once every three years. Should a non-executive Director serve any term beyond six years, his re-election would be subject to particularly rigorous review. In practice, all current appointments are for one year and all directors will stand for re-election at the forthcoming Annual General Meeting of shareholders of the Company.

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors paid by the Company in 2010 amounted to US$384 thousand (2009: US$395 thousand).

Directors' interests

The interests in the share capital of Globaltrans Investment Plc and its Group companies, both direct and indirect, of those who were Directors as at 31 December 2010 and 31 December 2009 are shown below:

	Type of holding	Shares/Global Depositary Receipts held at 31 December 2010	Shares/Global Depositary Receipts held at 31 December 2009
Alexander Eliseev	Through shareholding in Envesta Investments Ltd and other entities controlled by him	11,318,909	11,318,909
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456	11,658,456
Johann Franz Durrer	GDRs of Globaltrans Investment PLC	100,000	100,000

Total number of issued shares of the Company as at 31 December 2010 and 31 December 2009 was 158,135,533

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 34 to the consolidated financial statements.

Board performance

The Board held 16 meetings in 2010. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	8
Michael Zampelas	16
Johann Franz Durrer	16
Sergey Maltsev	2
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

The Board Committees

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

Audit Committee

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

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance which guarantees that the interests of all company shareholders are given due consideration. Although the Code is based on principles recommended by the UK Combined Code on Corporate Governance, this does not constitute voluntary compliance with such Combined Code. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit and other committees, ethical conduct, securities dealings and disclosure. Full details can be found at http://www.globaltrans.com/about-us/corporate-governance/governance-policies/. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 3 May 2010.

Refer to Note 31 of the consolidated financial statements for details of remuneration of directors and other key management personnel.

Branches

The Group operates through branches and representative offices, maintaining ten branches and eighteen representative offices during 2010, ten branches and nineteen representative offices during 2009.

Treasury shares

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the consolidated financial statements based on the fact that, after making enquiries and following a review of the Group's budget for 2011, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By Order of the Board

Alexander Eliseev
Chairman of the Board of Directors
Limassol, 1 April 2011

Directors' responsibility

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

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

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 8 to 52) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows the Company and the undertakings included in the consolidation taken as a whole.

By order of the Board

Sergey Maltsev
Director

Mikhail Loganov
Director

Independent Auditor's Report

To the Members of Globaltrans Investment PLC

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's responsibility

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

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

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

Independent Auditor's Report continued
To the Members of Globaltrans Investment PLC

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of Globaltrans Investment PLC and its subsidiaries as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements
Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

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

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

PricewaterhouseCoopers Limited

Chartered Accountants
Limassol, 1 April 2011

Consolidated income statement
for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Revenue	5	1,382,670	1,163,407
Cost of sales	6	(981,428)	(874,152)
Gross profit		401,242	289,255
Selling and marketing costs	6	(2,692)	(2,181)
Administrative expenses	6	(72,225)	(58,793)
Other gains – net	7	3,048	785
Operating profit		329,373	229,066
Finance income	9	7,203	5,886
Finance costs	9	(53,109)	(84,559)
Finance costs – net	9	(45,906)	(78,673)
Share of profit of associates	14	206	461
Profit before income tax		283,673	150,854
Income tax expense	10	(57,733)	(29,681)
Profit for the year		225,940	121,173
Attributable to:			
Equity holders of the Company		177,322	88,057
Non-controlling interests		48,618	33,116
		225,940	121,173
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)	27	1.12	0.74

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	2010 US$'000	2009 US$'000
Profit for the year	225,940	121,173
Other comprehensive income:		
Currency translation differences	(10,417)	(9,788)
Other comprehensive loss for the year, net of tax	(10,417)	(9,788)
Total comprehensive income for the period	215,523	111,385
Total comprehensive income attributable to:		
– owners of the Company	167,598	79,315
– non-controlling interests	47,925	32,070
	215,523	111,385

Items in the statement above are disclosed net of tax. There is no income tax relating to the components of other comprehensive income above.

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2010

	Note	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	1,112,212	905,475
Intangible assets	13	331	507
Trade and other receivables	18	64,365	54,534
Investment in associate	14	1,494	1,386
		1,178,402	961,902
Current assets			
Inventories	19	6,918	5,759
Trade and other receivables	18	184,358	128,758
Current income tax assets		7,960	5,469
Cash and cash equivalents	20	137,703	160,253
		336,939	300,239
Non-current assets held for sale	15	–	2,827
TOTAL ASSETS		1,515,341	1,264,968
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	21	15,814	15,814
Share premium	21	621,227	621,227
Common control transaction reserve		(368,476)	(368,476)
Translation reserve		(90,281)	(80,557)
Capital contribution		90,000	90,000
Retained earnings		485,575	332,253
Total equity attributable to the owners of the Company		753,859	610,261
Non-controlling interests		130,106	101,307
Total equity		883,965	711,568
Non-current liabilities			
Borrowings	24	327,890	295,679
Trade and other payables	26	10,467	11,105
Deferred gains	23	–	178
Deferred tax liabilities	25	32,430	27,955
Total non-current liabilities		370,787	334,917
Current liabilities			
Borrowings	24	191,149	153,452
Trade and other payables	26	67,203	64,084
Deferred gains	23	150	338
Current tax liabilities		2,087	609
Total current liabilities		260,589	218,483
TOTAL LIABILITIES		631,376	553,400
TOTAL EQUITY AND LIABILITIES		1,515,341	1,264,968

On 1 April 2011 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Maltsev, Director   Mikhail Loganov, Director

The notes on pages 13 to 52 are an integral part of these consolidated financial statements

2010 at a glance

Business review

Governance

Appendices

Consolidated statement of changes in equity
for the year ended 31 December 2010

		Attributable to the owners of the Company								
	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve[1] US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2009		11,696	279,145	(118,485)	(71,815)	90,000	281,456	471,997	87,041	559,038
Comprehensive income										
Profit for the year		–	–	–	–	–	88,057	88,057	33,116	121,173
Other comprehensive loss										
Currency translation differences		–	–	–	(8,742)	–	–	(8,742)	(1,046)	(9,788)
Total comprehensive income for 2009		–	–	–	(8,742)	–	88,057	79,315	32,070	111,385
Transactions with owners										
Issue of shares	21	4,118	345,882	–	–	–	–	350,000	–	350,000
Expenses directly related to issue of new shares	21	–	(3,800)	–	–	–	–	(3,800)	–	(3,800)
Dividends paid to shareholders of LLC BaltTransServis prior to common control transaction[2]	32	–	–	–	–	–	(37,260)	(37,260)	(29,809)	(67,069)
Exchange of liability to non-controlling participants in redeemable shares for equity instruments[3]	33	–	–	–	–	–	–	–	12,005	12,005
Common control transaction	32	–	–	(249,991)	–	–	–	(249,991)	–	(249,991)
Total transactions with owners		4,118	342,082	(249,991)	–	–	(37,260)	58,949	(17,804)	41,145
Balance at 31 December 2009/1 January 2010		15,814	621,277	(368,476)	(80,557)	90,000	332,253	610,261	101,307	711,568
Comprehensive income										
Profit for the year		–	–	–	–	–	177,322	177,322	48,618	225,940
Other comprehensive loss										
Currency translation differences		–	–	–	(9,724)	–	–	(9,724)	(693)	(10,417)
Total comprehensive income for 2010		–	–	–	(9,724)	–	177,322	167,598	47,925	215,523
Transactions with owners										
Dividends relating to 2008	22	–	–	–	–	–	(24,000)	(24,000)	–	(24,000)
Dividends relating to 2010	22	–	–	–	–	–	–	–	(19,154)	(19,154)
Contribution by non-controlling interests		–	–	–	–	–	–	–	28	28
Total transactions with owners		–	–	–	–	–	(24,000)	(24,000)	(19,126)	(43,126)
Balance at 31 December 2010		15,814	621,277	(368,476)	(90,281)	90,000	485,575	753,859	130,106	883,965

[1] In December 2009, the Parent of the Company has contributed its 55,56% share of Ingulana Holdings Limited to the Company in exchange for ordinary shares of the Company. The acquisition of Ingulana Holdings Limited has been accounted as a common control transaction using the predecessor basis of accounting (Note 2 and 32).

[2] Represents dividends declared and paid by LLC BaltTransServis to its shareholders prior to its acquisition by the Company.

[3] In December 2009, following introduction of Ultracare Holdings Limited as an intermediary holding company, the non-controlling shareholder in LLC BaltTransServis exchanged their share in LLC BaltTransServis for an equivalent interest in Ultracare Holdings Limited. At the same time, the Group undertook a liability towards non-controlling shareholders to distribute a minimum 25% of earnings of Ultracare Holdings Limited and LLC BaltTransServis.

Following this restructuring, the Group exchanged the liability to the non-controlling shareholder for puttable instruments of LLC BaltTransServis with a new liability, being the minimum dividend income distribution of 25% of distributable reserves of the relevant subsidiaries and an equity element for the remaining non-controlling shareholder in this subgroup for which there is no liability for minimum dividend distribution.

As a result of the exchange of these liabilities, the Group transferred 75% of the liability to the non-controlling shareholder for puttable instruments of LLC BaltTransServis which amounted to US$12,005 thousand, to non-controlling interest in equity. The remaining liability for US$4,002 thousand was replaced with a new liability of US$12,500 thousand, giving rise to a loss on the exchange of these liabilities of US$8,498 thousand which is recognised in the income statements as part of finance costs. (Refer to Note 9 and 33).

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Cash flows from operating activities			
Profit before tax		283,673	150,854
Adjustments for:			
Depreciation of property, plant and equipment	12	63,017	53,193
Amortisation of intangible assets	13	173	14
Loss on sale of property, plant and equipment	12	2,041	1,679
Amortisation of financial guarantees	9	(961)	(1,798)
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	28	–	(15)
(Reversal of)/impairment charge on property, plant and equipment	12	(650)	1,291
Interest income	9	(6,242)	(4,088)
Interest expense	9	43,656	47,506
Share of profit of associates	14	(206)	(461)
Exchange losses/(gains) on financing activities	9	7,450	21,104
Recognised deferred gain	7	(333)	(904)
Distribution to non-controlling participants in redeemable shares	9	–	7,451
Loss on exchange of financial liabilities	9	–	8,498
Finance cost on liability for minimum dividend distribution	9	2,003	–
Other		–	(216)
		393,621	284,108
Changes in working capital:			
Inventories		(1,101)	7
Trade and other receivables		(79,319)	12,830
Trade and other payables		10,054	(6,744)
Cash generated from operations		323,255	290,201
Tax paid		(34,306)	(18,003)
Net cash from operating activities		288,949	272,198
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	32	(7,013)	(71,667)
Loans repayments received from third parties		17	–
Purchases of property, plant and equipment		(299,822)	(106,655)
Purchases of intangible assets	13	–	(497)
Proceeds from disposal of property, plant and equipment	12	185	3,923
Proceeds from sale of assets classified as held for sale		2,636	–
Interest received		6,558	4,102
Receipts from finance lease receivable		4,472	3,335
Net cash used in investing activities		(292,967)	(167,459)
Cash flows from financing activities			
Proceeds from borrowings		437,279	309,028
Repayments of borrowings		(246,981)	(288,288)
Finance lease principal payments		(119,218)	(94,280)
Interest paid		(43,576)	(49,682)
Contribution by non-controlling interests		28	–
Proceeds from sale and finance leaseback transactions		–	20,788
Proceeds from issue of shares – net		–	96,209
Dividends paid to shareholders of BTS prior to common control transaction		–	(67,069)
Distribution to non-controlling participants in redeemable shares		–	(7,451)
Dividends paid to Company's shareholders	22	(24,000)	–
Dividends paid to non-controlling shareholders	22	(21,157)	–
Net cash used in financing activities		(17,625)	(80,745)
Net (decrease)/increase in cash and cash equivalents		(21,643)	23,994
Exchange losses on cash and cash equivalents		(492)	(1,815)
Cash, cash equivalents and bank overdrafts at beginning of year	20	159,093	136,914
Cash, cash equivalents and bank overdrafts at end of year	20	136,958	159,093

Principal non-cash investing and financing transactions

The principal non-cash investing and financing transactions consist of:

a) Finance leases as a lessor (Note 18)

b) Finance leases as a lessee (Note 24)

The notes on pages 13 to 52 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2010

1 GENERAL INFORMATION

Country of incorporation
The Company is incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113 and converted into a public company on 15 April 2008. The address of its registered office is 20 Omirou Street, Limassol, Cyprus. The Group's principal place of business is at 16/15 Spartakovskaya Sqr., Moscow, Russia.

Global Depositary Receipts representing ordinary shares of the Company are listed on the London Stock Exchange.

Approval of the consolidated financial statements
These Group consolidated financial statements were authorised for issue by the Board of Directors on 1 April 2011.

Principal activities
The principal activity of the Group, which is unchanged from last year, is the provision of railway transportation services using own or leased rolling stock and operating lease of rolling stock.

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

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2010	2009
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	100	100
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	100	100
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	100
BaltTransServis, LLC	Subsidiary	Russia	Railway transportation	50	50
RemTransServis, OOO[1]	Subsidiary	Russia	Repair and maintenance of rolling stock	49.5	–
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	55.56	55.56
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	50	50
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	61
Skinest Veeremi AS[2]	Subsidiary	Estonia	Operating lease of rolling stock	–	61
Hoover SIA	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	61	61
Ekolinja Oy	Subsidiary	Finland	Operating sub-lease of rolling stock	61	61
Spacecom Trans AS (formely Intopex Trans AS)	Subsidiary	Estonia	Operating lease of rolling stock	65	65

[1]RemTransServis, OOO was incorporated during the year ended 31 December 2010 as a 99% subsidiary of BaltTransServis,OOO. The company offers repair and maintenance services to BaltTransServis. BaltTransServis has contributed RUB7,000 thousand (US$230 thousand) into the share capital of RemTransServis.
[2]In July 2010 Skinest Veeremi AS was merged with Spacecom AS.

2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented in these consolidated financial statements, unless otherwise stated.

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

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2010:

- The Group has early adopted IAS 24, "Related Party Disclosures" (Amendments) which was issued in November 2009. IAS 24 was revised by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The adoption of the revised IAS 24 resulted in disclosure of associates of the parent company as related parties of the Group.
- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.
- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.
  The Group's accounting policy on transactions with non-controlling interests remains unchanged as transactions with non-controlling interests had always been accounted for as equity transactions.
  The Group has changed its accounting policy for the accounting for loss of control or significant influence from 1 January 2010. Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have an impact on these consolidated financial statements.
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on these consolidated financial statements.
- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these consolidated financial statements.
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these consolidated financial statements.

Notes to the consolidated financial statements continued

- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have an impact on these financial statements.

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

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

- IFRS 9, "Financial Instruments Part 1: Classification and Measurement."* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group which is subject to EU endorsement. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial

statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.

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

- IFRIC14 (Amendments), "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011). The amendments will not have any impact on the Group's financial statements.
- Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have an impact on its consolidated financial statements.
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have an impact on its consolidated financial statements.
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7* (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have an impact on the Group's consolidated financial statements.
- Deferred tax on investment property measured at fair value –Amendments to IAS12* (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment adds another exemption to the principles in IAS12, the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties. The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (eg. buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale. The amendments also incorporate SIC 21 "Income taxes – recovery of revalued non-depreciable assets" into IAS12, although this guidance will not be applied to investment property measured at fair value. The SIC 21 guidance has been included because it is applied by analogy in a number of transactions. The amendment is not expected to have an impact on the Group's consolidated financial statements.
- Exemption from severe hyperinflation and removal of fixed dates – Amendments to IFRS 1* (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the exemption allows an entity to elect to measure certain assets and liabilities at fair value and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The amendment is not expected to have an impact on the Group's consolidated financial statements.

Basis of consolidation

a) Subsidiaries

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

Notes to the consolidated financial statements continued

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

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

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at the fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

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

b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

c) Associates

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

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

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

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of the Company that makes strategic decisions.

Revenue recognition

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

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

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

a) Revenue from railway transportation services

The Group operates the following services:

1 Revenues from railway transportation – using own or leased rolling stock
The Group organises transportation services for clients using its own or leased rolling stock.
There are three types of operator's services:
- The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue (Note 5).
- The Group has a contractual relationship with the client and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is paid by the Group and recharged to the customer as a reimbursement. Under these arrangements the Group recognises turnover net of OAO "Russian Railways" tariff.
- The Group has a contractual relationship with the customer and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The tariff is paid directly by the customer to OAO "Russian Railways". Under these arrangements the Group recognizes revenue net of OAO "Russian railways" tariff. Revenue is recognised in accordance to the stage of completion of the transaction.

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

b) Revenues from leasing

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

c) Revenues from sale of wagons and locomotives

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

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

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

d) Interest income

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

Notes to the consolidated financial statements continued

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

Foreign currency translation

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

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

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

c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the average monthly rate, which approximates the exchange rate existing at the date of transactions; and,
- Share capital, share premium and all other reserves are translated using the historic rate.

All exchange differences resulting from the above translation are recognised in other comprehensive income.

On consolidation, exchange differences arising from the transaction of the net investment in foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of or sold and control or significant influence is lost, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

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

Property, plant and equipment

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

Land is not depreciated.

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

	Number of years
Buildings	30
Rolling stock (except locomotives)	25
Locomotives	15
Mounted wheels	7
Motor vehicles and other property, plant and equipment	3 to 10

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

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

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

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

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

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

Intangible assets

a) Computer software

The costs of acquiring computer software for internal use are capitalised as intangible assets where the software supports a significant business system and the expenditure leads to the creation of a durable asset. Computer software is capitalised at cost and amortised over three years, which reflects its estimated useful life, using straight-line method commencing when the asset is available for its intended use. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Impairment of non-financial assets

Assets that have indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered impairment are reviewed for possible reversal of impairment whenever there is an indication that an impairment recognised in prior periods may no longer exist or may have decreased.

Leases

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

The Group is the lessee

a) Finance leases

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

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

b) Operating leases

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

c) Sale and leaseback

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

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

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

Notes to the consolidated financial statements continued

The Group is the lessor

a) Finance leases

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

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

b) Operating leases

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

Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

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

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

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

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

Extinguishment of the original financial liability

Substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the existing liability and the new liability is recognized in the income statement as part of finance costs.

Inventories

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

Cash and cash equivalents

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

Cash flow statement

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

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

Trade receivables

Trade receivables are amounts due from customers for services provided in the ordinary course of business. If collection is expected in one year or less (or in a normal operating cycle of the business, if longer than one year) they are classified as current assets, if not, they are presented as non-current assets.

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

Share capital

Ordinary shares are classified as equity.

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

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

Trade payables

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

Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

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

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over

Notes to the consolidated financial statements continued

the life of the guarantee and amortisation income is recognised in the income statement within finance income. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Current and deferred income tax

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

Value Added Tax (VAT)

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

Employee benefits

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

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

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved and are no longer at the discretion of the Company. More specifically, interim dividends are recognised when approved by the Board of directors whereas in case of final dividends, these are recognised at the time when they are approved by the Company's shareholders.

Dividends issued by subsidiaries prior to common control transactions are included in distribution to shareholders in equity unless they relate to distributions to non-controlling participants in redeemable shares, in which case the distribution is recognised in the income statement as part of finance costs as explained in the accounting policy for "net assets attributable to non-controlling participants in redeemable shares".

Distribution of dividends by Ultracare Holdings Limited in favour of non-controlling interests in satisfaction of the minimum dividends distribution obligation is recognised in the income statement as part of finance costs, whereas any distribution in excess of such minimum distribution obligation are recognised as dividends to non-controlling interests in the statement of changes in equity.

Net assets attributable to non-controlling participants in redeemable shares

The equity participants in the share capital of limited liability companies incorporated in Russia have a right to request redemption of their interests in such entity in cash. Consequently, the share of net assets of the Group's subsidiaries which is not attributable to the Group gives rise to a financial liability for the present value of the redemption amount even though the obligation is conditional on the equity participant exercising the right. It is impractical to determine the fair value of this liability as it is unknown when and if participants will withdraw from

the entity. As a practical expedient, the Group measures the liability presented as Net assets attributable to non-controlling participants in redeemable shares at the IFRS carrying value of such entity's net assets attributable to non-controlling shareholders holding such redeemable shares. The liability is classified as non-current because the Group has an unconditional right to defer redemption for at least twelve months after the balance sheet date.

Distributions to participants in redeemable shares of the Group's subsidiaries are presented as a finance cost in the consolidated income statement. Distributions to the non-controlling participants in redeemable shares are recognised as a liability and finance costs when they are declared. Dividends are disclosed when they are proposed or declared after the balance sheet date but before the financial statements are authorised for issue. Russian legislation identifies as basis for distribution net profit determined in accordance with Russian Accounting Regulations.

3 FINANCIAL RISK MANAGEMENT

Financial risks factors

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

Market risk

a) Foreign exchange risk

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

Currently the Group attracts a proportion of long-term borrowings and lease liabilities denominated in US Dollars, whereas a large proportion of the Group's expenses and revenues are denominated and settled in Russian Roubles. The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group continues its efforts to re-finance some of its US Dollar denominated liabilities by obtaining long-term debt denominated in Russian Roubles. However, as the US Dollar interest rates continue to be relatively attractive compared to the Russian Rouble interest rate, a portion of the Group's long-term borrowings continue to be in US Dollars.

The depreciation in value of the Russian Rouble against the US Dollar from September 2008 until May 2009 led to the Group realising a foreign exchange loss on its US Dollar denominated borrowings. From May 2009 onwards the Russian Rouble stabilised at the level approximating that at the end of 2008. During 2010 the Russian Rouble was relatively stable against the US Dollar, however, its fluctuation within the period has resulted in foreign exchange losses for the Group for the year ended 31 December 2010. The Group is therefore exposed to the effects of currency fluctuations between the US Dollar and the Russian Rouble, which could have a material effect on its results of operations and financial condition. The Group is also exposed to the effects of currency fluctuations between the US Dollar and the Euro to which the Estonian kroons, which is the functional currency of the Estonian subsidiary, was fixed until 31 December 2010. On 1 January 2011, the Euro replaced the Kroon as the official currency of Estonia.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US Dollars as at 31 December 2010 and 31 December 2009 are as follows:

	2010 US$'000	2009 US$'000
Assets	83,716	169,521
Liabilities	115,235	297,756

Had US Dollar exchange rate strengthened/weakened by 10% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2010, would have decreased/increased by US$1,787 thousand (2009: 10% change, effect US$5,336 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Group entities with Russian Rouble being their functional currency. Profit was less sensitive to fluctuations of the exchange rate of Russian Rouble to US Dollar for the year ended 31 December 2010 compared to 2009 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2010 (Note 24).

Had US Dollar exchange rate strengthened/weakened by 10% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2010, would have decreased/increased by US$3,323 thousand (2009: 10% change, effect US$4,198 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents, capital commitments and accounts receivable denominated in US Dollar for the Estonian subsidiaries of the Group. Profit was less sensitive to fluctuations of the exchange rate of Euro to US Dollar for the year ended 31 December 2010 due to decrease in borrowings of the Estonian subsidiaries of the Group.

b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates arising mainly from floating rate lease liabilities and borrowings. In addition the Group is exposed to fair value interest rate risk through market value fluctuations of finance lease liabilities and finance lease receivables with fixed interest rates. However, any potential change in the market rates of interest will not have an impact on the

Notes to the consolidated financial statements continued

carrying amount of the fixed rate financial instruments and hence on the Group's post tax profit or equity as these instruments are carried at amortised cost.

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

Had US Dollar, Euro and Russian Rouble lease and credit interest rates shift by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post tax profit of the Group would have changed by US$2,443 thousand for the year ended 31 December 2010 (2009: US$2,506).

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

c) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and finance lease receivables (Note 18), and cash and cash equivalents (Note 20).

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These policies enable the Group to reduce its credit risk significantly.

However, the Group's business is heavily dependent on a few large key customers, accounting for 63.63% of the Group's trade and other receivables (excluding prepayments and finance lease receivables as at 31 December 2010 (2009: 54.68%).

These figures include trade and other receivables arising from business with related parties which account for 19.99% as at 31 December 2010 (2009: 29.36%).

In addition, current and non-current finance lease receivables arise from business with one customer only (two on 31 December 2009).

The table below summarises the analysis of accounts receivable under contractual terms of settlement at the balance sheet date for the year ended 31 December 2010 and 31 December 2009:

	Fully performing US$'000	Past due US$'000	Impaired US$'000	Impairment provision US$'000	Total US$'000
As of 31 December 2010					
Trade receivables	35,360	18,676	1,645	(1,645)	54,036
Other receivables	3,693	290	676	(676)	3,983
Finance lease receivables	35,906	–	–	–	35,906
	74,959	18,966	2,321	(2,321)	93,925
As of 31 December 2009					
Trade receivables	22,254	15,221	3,285	(3,285)	37,475
Loans to third parties	21	–	–	–	21
Other receivables[1]	4,713	932	544	(544)	5,645
Finance lease receivables	40,499	–	–	–	40,499
	67,487	16,153	3,829	(3,829)	83,640

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

d) Liquidity risk

The Group has a net working capital surplus of US$76,350 thousand (2009: US$81,756 thousand) as at 31 December 2010.

The Group has successful credit and refinancing history and maintains enough flexibility ensuring the ability to attract necessary funds through committed credit facilities. Due to availability of committed credit lines amounting to US$68,667 thousand for 2010 (2009: US$64,076 thousand), together with long-term borrowings (Note 24) the Group has the ability to meet its liabilities as they fall due and mitigate risks of adverse changes in the financial markets environment.

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

The table below summarises the analysis of financial liabilities of the Group by maturity as of 31 December 2010 and 31 December 2009. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US$'000	Between one month and three months US$'000	Between three and six months US$'000	Less than one year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over five years US$'000	Total US$'000
As of 31 December 2010								
Borrowings	16,924	27,796	54,595	127,579	162,593	202,479	6,298	598,624
Trade and other payables[1,3]	17,176	314	113	2,332	2,398	6,315	10,675	39,323
	34,100	28,110	54,708	129,911	165,351	208,794	16,973	637,947
As of 31 December 2009								
Borrowings	13,291	49,655	37,062	84,189	177,284	148,202	–	509,683
Trade and other payables[1,3]	21,893	444	7,964	2,468	2,033	6,098	10,675	51,575
Financial guarantee contracts[2]	–	1,723	21,847	2,368	23,621	21,298	–	70,857
	35,184	51,822	66,873	89,025	202,938	175,598	10,675	632,115

[1]Statutory liabilities are excluded as the analysis is provided for financial liabilities only
[2]The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time period it may be called.
[3]The Group has recognised a liability for minimum distribution of 25% of the distributable profits of LLC BaltTransServis to non-controlling shareholder of that subsidiary, which is payable at six monthly intervals. The amounts included in the liquidity risk table in relation to this liability are the undiscounted cash flows expected to be paid by the Group to the non-controlling shareholder, based on the projected profitability of the relevant subsidiary for the next 5 years. For periods after 5 years, the amount disclosed in the liquidity risk table is the relative proportion of the terminal value, as estimated in the discounted cash flow valuation of the relevant subsidiary, which is attributable to the proportion of the non-controlling for which there is liability for minimum dividend distribution. Management is of the opinion that this provides the most useful information to the users of the financial statements to enable them to assess the impact of this liability on the liquidity position of the Group, as opposed to disclosing undiscounted cash flows to perpetuity

e) Capital risk management

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

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

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

Total capitalisation is calculated as the sum of the total Group borrowings and total equity attributable to the equity owners of the Company. The management does not currently have any specific target for the rate of borrowings to total capitalisation.

The rate of borrowings to total capitalisation as at 31 December 2010 and 31 December 2009 are as follows:

	2010 US$'000	2009 US$'000
Total borrowings	519,039	449,131
Total capitalisation	1,272,898	1,059,392
Total borrowings to total capitalisation ratio (percentage)	40.78%	42.40%

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2010 and 2009. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

f) Fair value estimation

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

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

Notes to the consolidated financial statements continued

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

a) Critical accounting estimates and assumptions

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

i) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 29).

b) Critical judgements in applying in Group's accounting policies

i) Revenue recognition

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

(i) The Group's customers do not interact with OAO "Russian Railways". A full service is charged by the Group to its customers and the OAO "Russian Railways" tariff is borne by the Group. There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that OAO "Russian Railways" tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by OAO "Russian Railways". However, the Group bears the credit risk and controls the flow of receipts and payments. The services are rendered with the use of own or leased rolling stock and the Group bears the OAO "Russian Railways" tariff to bring the rolling stock back or to the next destination. The Group is independent in its pricing policy and considers its potential loss for empty run tariff. Management believes that the Group acts as a principal in these arrangements and the Group accounts receipts from customers as sales revenue and the OAO "Russian Railways" tariff is included in cost of sales. Had OAO "Russian Railways" tariff directly attributable to such services been excluded from revenues and cost of sales both would have decreased by US$479,671 thousand for the year ended 31 December 2010 (US$478,152 thousand for the year ended 31 December 2009).

(ii) The Group agrees with the customer the transport fee as above, excluding the OAO "Russian Railways" tariff which is paid by the Group and re-invoiced to the client as reimbursement. Management believes that OAO "Russian Railways" tariff should not be included in revenue and cost of sales as any variation in the tariff will be borne by the client. Had this OAO "Russian Railways" tariff been included in revenues and cost of sales, both would have increased by US$2,133 thousand for the year ended 31 December 2010 (US$1,981 thousand for the year ended 31 December 2009).

5 SEGMENTAL INFORMATION

The chief operating decision-maker has been identified as the Board of Directors of the Group. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Board considers the business from two perspectives: by type of activity and by type of rolling stock used. From a type of activity perspective, management reviews revenues with no further analysis of the underlying cost components. From the type of rolling stock used perspective management assesses the performance of each type (tanker wagons, open wagons, locomotives, hopper wagons, platforms) at the level of adjusted revenue.

Adjusted revenue is the measure of profit looked at by the chief operating decision-maker and this includes the revenues derived from the relating type of rolling stock used less infrastructure tariff paid for the loaded trips of relating rolling stock. Further Board receives information in respect of repair expenses by type of rolling stock and relating depreciation charges. All other information provided to the Board is measured in a manner consistent with that in the financial statements.

Segment assets consist of rolling stock. Unallocated assets comprise all the assets of the Group except for rolling stock as included within segment assets.

Liabilities are not segmented since they are not reviewed from that perspective by the chief operating decision maker.

Capital expenditure comprises additions of rolling stock to property, plant and equipment.

The Group does not have transactions between different business segments.

In the Group's consolidated financial statements for the year ended 31 December 2009 BaltTransServis LLC ("BTS") was presented as a separate segment since it was acquired by the Group at the end of 2009 and its results were not reviewed by the chief operating decision maker throughout the periods presented. However, starting from 1 January 2010 a common methodology as described above has been applied to BTS results and it is now presented as part of ‚Tank cars' and ‚Open wagons' segments. Comparative information has been restated accordingly.

	Open wagons US$'000	Tank cars US$'000	All other segments US$'000	Total US$'000
Year ended 31 December 2010				
Total revenue – operator's services	399,556	887,587	22,570	1,309,713
Total revenue – operating lease	5,771	62,876	1,892	70,539
Inter-segment revenue	–	–	–	–
Revenue (from external customers)	405,327	950,463	24,462	1,380,252
less Infrastructure and locomotive tariffs – loaded trips	(9,378)	(468,580)	(1,713)	(479,671)
Adjusted revenue for reportable segments	395,949	481,883	22,749	900,581
Depreciation and amortisation	(32,946)	(24,834)	(2,510)	(60,290)
Reversal of impairment charge on property, plant and equipment	–	–	650	650
Additions to non-current assets (included in reportable segment assets)	243,389	34,729	102	278,220
Reportable segment assets	634,938	425,489	35,553	1,095,980
Year ended 31 December 2009				
Total revenue – operator's services	234,263	843,667	18,700	1,096,630
Total revenue – operating lease	2,939	59,068	3,376	65,383
Inter-segment revenue	–	–	–	–
Revenue (from external customers)	237,202	902,735	22,076	1,162,013
less Infrastructure and locomotive tariffs – loaded trips	(14,710)	(461,930)	(1,512)	(478,152)
Adjusted revenue for reportable segments	222,492	440,805	20,564	683,861
Depreciation and amortisation	(22,919)	(24,312)	(3,508)	(50,739)
Impairment charge on property, plant and equipment	–	–	(1,291)	(1,291)
Additions to non-current assets (included in reportable segment assets)	74,519	11,674	11,760	97,953
Reportable segment assets	428,551	428,015	35,870	892,436

A reconciliation of total adjusted revenue to total profit before income tax is provided as follows:

	2010 US$'000	2009 US$'000
Adjusted revenue for reportable segments	900,581	683,861
Other revenues	2,418	1,394
Total adjusted revenue	902,999	685,255
Cost of sales (excl. Infrastructure and locomotive tariffs – loaded trips, impairments and depreciation of property, plant and equipment)	(440,368)	(342,420)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	(72,465)	(58,632)
Depreciation	(63,017)	(53,193)
Impairments	(824)	(2,729)
Other gains – net	3,048	785
Operating profit	329,373	229,066
Finance income	7,203	5,886
Finance costs	(53,109)	(84,559)
Share of profit of associates	206	461
Profit before income tax	283,673	150,854

Notes to the consolidated financial statements continued

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

Year ended 31 December 2010

	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	1,095,980	–
Unallocated:		
Deferred tax	–	32,430
Current income tax	7,960	2,087
Investment in associates	1,494	–
Inventories	6,918	–
Intangible assets	331	–
Current borrowings	–	191,149
Non-current borrowings	–	327,890
Deferred gains	–	150
Property, plant and equipment	16,232	–
Receivables	248,723	–
Payables	–	77,670
Cash and cash equivalents	137,703	–
Total	1,515,341	631,376

Year ended 31 December 2009

	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	892,436	–
Unallocated:		
Deferred tax	–	27,955
Current income tax	5,469	609
Investment in associates	1,386	–
Inventories	5,759	–
Assets of disposal group classified as held for sale	2,827	–
Intangible assets	507	–
Current borrowings	–	153,452
Non-current borrowings	–	295,679
Deferred gains	–	516
Property, plant and equipment	13,039	–
Receivables	183,292	–
Payables	–	75,189
Cash and cash equivalents	160,253	–
Total	1,264,968	553,400

Geographic information

Revenues from external customers

	2010 US$'000	2009 US$'000
Revenue		
Russia	1,325,323	1,115,716
Estonia	32,765	47,636
Finland	24,257	–
Ukraine	325	55
	1,382,670	1,163,407

The revenue information above is based on the location where the sale has originated, i.e. on the location of the respective subsidiary of the Group.

In the periods set out below, certain customers, all within tank cars operating segment and included within the revenue generated in Russia, accounted for greater than 10% of the Group's total revenues:

	2010		2009	
	US$'000	% revenue	US$'000	% revenue
Revenue				
Customer A	496,503	36	414,089	36
Customer B	118,336	9	113,035	10

Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts

	2010 US$'000	2009 US$'000
Non-current assets		
Russia	977,581	779,960
Estonia	164,212	146,886
Ukraine	2,439	66
Latvia	1,494	1,386
Cyprus	36	49
	1,145,762	928,347

Analysis of revenue by category:

	2010 US$'000	2009 US$'000
Railway transportation – operators services (tariff borne by the Group)[1]	810,661	815,998
Railway transportation – operators services (tariff borne by the client)	499,052	280,632
Railway transportation – freight forwarding	1,858	265
Operating lease of rolling stock	70,539	65,383
Sale of wagons and locomotives	–	189
Other	560	940
Total revenue	1,382,670	1,163,407

[1]Includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2010 amounting to US$479,671 thousand (for the year ended 31 December 2009: US$478,152 thousand)

6 EXPENSES BY NATURE

	2010 US$'000	2009 US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	479,671	478,152
Empty run trips, other tariffs and services provided by other transportation organisations	232,586	195,224
Operating lease rentals – rolling stock	87,469	38,791
Employee benefit expense	13,412	11,204
Repair and maintenance	63,673	62,223
Depreciation of property, plant and equipment	62,039	52,289
Amortisation of intangible assets	173	14
Fuel and spare parts – locomotives	21,261	17,033
Engagement of locomotive crews	11,296	10,120
Loss on sale of property, plant and equipment	2,158	1,533
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	–	186
(Reversal of)/impairment charge for property, plant and equipment	(650)	1,291
Other expenses	8,340	6,092
	981,428	874,152

Notes to the consolidated financial statements continued

	2010 US$'000	2009 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	978	904
(Gain)/loss on sale of property, plant and equipment	(117)	146
Employee benefit expense	33,028	23,510
Impairment charge of receivables	1,474	1,438
Operating lease rental – office	4,362	4,682
Auditors' remuneration	1,262	1,449
Legal, consulting and other professional fees	3,298	6,637
Advertising and promotion	570	574
Communication costs	1,078	1,007
Information services	1,385	1,360
Taxes (other than income tax and value added taxes)	16,141	11,007
Other expenses	11,458	8,260
	74,917	60,974

	2010 US$'000	2009 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	63,017	53,193
Amortisation of intangible assets (Note 13)	173	14
Loss on sale of property, plant and equipment (Note 12)	2,041	1,679
Employee benefit expense (Note 8)	46,440	34,714
Impairment charge for receivables (Note 18)	1,474	1,438
(Reversal of)/impairment charge for property, plant and equipment	(650)	1,291
Operating lease rentals – rolling stock	87,469	38,791
Operating lease rentals – office	4,362	4,682
Repairs and maintenance	63,673	62,223
Fuel and spare parts – locomotives	21,261	17,033
Engagement of locomotive crews	11,296	10,120
Infrastructure and locomotive tariffs:		
Loaded trips	479,671	478,152
Empty run trips, other tariffs and services provided by other transportation organisations	232,586	195,224
Auditors' remuneration	1,262	1,449
Legal, consulting and other professional fees	3,298	6,637
Advertising and promotion	570	574
Communication costs	1,078	1,007
Information services	1,385	1,360
Taxes (other than income tax and value added taxes)	16,141	11,007
Cost of wagons and locomotives sold in trading transactions (not part of property, plant and equipment)	–	186
Other expenses	19,798	14,352
Total cost of sales, selling and marketing costs and administrative expenses	1,056,345	935,126

7 OTHER GAINS – NET

	2010 US$'000	2009 US$'000
Write off of excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (Note 28)	–	15
Other gains	2,801	2,470
Other losses	(292)	(2,088)
Recognised deferred gains	333	904
Net foreign exchange gains/(losses) (Note 11)	206	(516)
	3,048	785

8 EMPLOYEE BENEFIT EXPENSE

	2010 US$'000	2009 US$'000
Wages and salaries	25,933	23,063
Termination benefits	–	25
Bonuses	16,640	8,240
Social insurance costs	3,867	3,386
	46,440	34,714
Average number of employees	944	958

9 FINANCE INCOME AND COSTS

	2010 US$'000	2009 US$'000
Interest expense:		
Bank borrowings	(24,951)	(20,225)
Non-convertible bond	(3,906)	–
Finance leases	(13,524)	(21,536)
Loans from related parties (Note 31)	–	(638)
Loans from third parties	–	(273)
Other interest – related parties (Note 31)	(348)	(4,722)
Other finance costs	(927)	(112)
Total interest expense	(43,656)	(47,506)
Net foreign exchange transaction losses on financing activities (Note 11)	(7,450)	(21,104)
Finance cost on liability for minimum dividend distribution	(2,003)	–
Loss on exchange of financial liabilities (Note 33)	–	(8,498)
Distribution to non-controlling participants in redeemable shares (Note 33)	–	(7,451)
Finance costs	(53,109)	(84,559)
Interest income:		
Bank balances	320	118
Short-term bank deposits	686	933
Finance leases	5,234	3,027
Loans to third parties	2	10
Total interest income	6,242	4,088
Amortisation of financial guarantees	961	1,798
Finance income	7,203	5,886
Net finance costs	(45,906)	(78,673)

10 INCOME TAX EXPENSE

	2010 US$'000	2009 US$'000
Current tax:		
Corporation tax	48,891	24,975
Withholding tax	1,860	–
Defence contribution	3	–
Deferred tax (Note 25)	6,979	4,706
	57,733	29,681

Notes to the consolidated financial statements continued

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

	2010 US$'000	2009 US$'000
Profit before tax	283,673	150,854
Tax calculated at the applicable tax rates	50,459	25,634
Tax effect of expenses not deductible for tax purposes	1,305	4,401
Tax effect of allowances and income not subject to tax	(85)	(178)
Tax effect of utilisation of previously unrecognised tax losses	(34)	(323)
Tax effect of tax losses for which no deferred tax asset was recognised	16	2
Defence contribution	3	–
Withholding tax	1,860	–
Dividend withholding tax provision (Note 25)	4,209	145
Tax charge	57,733	29,681

The weighted average applicable tax rate was 17.8% in 2010 (2009: 17.0%). The increase in the average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

The Company is subject to corporation tax on taxable profits at the rate of 10%. Up to 31 December 2008, under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest was exempt from corporation tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only be subject to defence contribution at the rate of 10%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

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

For subsidiaries in Estonia the annual profit earned by enterprises is not taxed and thus no income tax or deferred tax asset/liabilities arise. Instead of taxing the net profit, the distribution of statutory retained earnings is subject to a dividend tax rate of 21/79 (until 31 December 2009: 21/79) of net dividend paid. Therefore, the applicable income tax rate for Estonian subsidiaries is zero per cent.

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

The Group has not recognised any tax in relation to other comprehensive income as all elements of other comprehensive income are not subject to tax.

11 NET FOREIGN EXCHANGE LOSSES

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

	2010 US$'000	2009 US$'000
Net finance costs (Note 9)	(7,450)	(21,104)
Other gains – net (Note 7)	206	(516)
	(7,244)	(21,620)

12 PROPERTY, PLANT AND EQUIPMENT

	Rolling stock US$'000	Land and buildings US$'000	Motor vehicles US$'000	Assets under construction US$'000	Other US$'000	Total US$'000
At 1 January 2009						
Cost	1,077,687	5,004	2,941	71	5,282	1,090,985
Accumulated depreciation	(172,112)	(269)	(1,455)	–	(1,661)	(176,497)
Net book amount	904,575	4,735	1,486	71	3,621	914,488
Year ended 31 December 2009						
Opening net book amount	904,575	4,735	1,486	71	3,621	914,488
Additions	103,904	139	497	2,076	1,127	107,743
Disposals	(41,162)	–	(217)	–	(43)	(41,422)
Depreciation charge	(51,542)	(255)	(488)	–	(908)	(53,193)
Transfers to disposal group classified as held for sale	(278)	(2,453)	–	–	–	(2,731)
Transfers	–	–	–	(66)	66	–
Impairment charge on property, plant and equipment	(1,291)	–	–	–	–	(1,291)
Currency translation differences	(18,005)	(85)	(72)	100	(57)	(18,119)
Closing net book amount	896,201	2,081	1,206	2,181	3,806	905,475
At 31 December 2009						
Cost	1,115,161	2,605	2,952	2,181	6,290	1,129,189
Accumulated depreciation	(218,960)	(524)	(1,746)	–	(2,484)	(223,714)
Net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Year ended 31 December 2010						
Opening net book amount	896,201	2,081	1,206	2,181	3,806	905,475
Additions	286,199	45	985	2	1,019	288,250
Disposals	(2,125)	–	(30)	–	(46)	(2,201)
Depreciation charge	(61,243)	(192)	(569)	–	(1,013)	(63,017)
Transfers	2,171	–	–	(2,171)	–	–
Reversal of impairment charge on property, plant and equipment	650	–	–	–	–	650
Currency translation differences	(16,823)	(40)	(9)	(10)	(63)	(16,945)
Closing net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212
At 31 December 2010						
Cost	1,375,596	2,588	3,705	2	6,933	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	–	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	2	3,703	1,112,212

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

	2010 US$'000	2009 US$'000
Net book amount	2,201	41,422
Loss on sale of property, plant and equipment (Note 6)	(2,041)	(1,679)
Consideration from sale of property, plant and equipment	160	39,743

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

	2010 US$'000	2009 US$'000
Cash consideration:		
– Received within year	185	3,923
– Received after year end	–	3
Property, plant and equipment disposed through finance lease transactions	–	35,832
Movement in advances received in accounts payable for sales of property, plant and equipment	(25)	(15)
	160	39,743

Notes to the consolidated financial statements continued

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

	2010 US$'000	2009 US$'000
Cost – capitalised finance leases	259,634	446,489
Accumulated depreciation	(60,246)	(82,592)
	199,388	363,897

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

	2010 US$'000	2009 US$'000
Rolling stock	199,158	363,727
Motor vehicles	230	158
Other	–	12
	199,388	363,897

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

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

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

The total net book value of pledged property, plant and equipment (included above) which are held as collateral for the borrowings and loans (excluding finance lease liabilities) are as follows (Note 24):

	2010 US$'000	2009 US$'000
Rolling stock	396,049	321,664

Depreciation expense of US$62,039 thousand in 2010 (2009: US$52,289 thousand) have been charged to "cost of sales" and US$978 thousand in 2010 (2009: US$904 thousand) have been charged to administrative expenses.

13 INTANGIBLE ASSETS

	Computer software US$'000	Total US$'000
At 1 January 2009		
Cost	–	–
Accumulated amortisation and impairment	–	–
Net book amount	–	–
Year ended 31 December 2009		
Opening net book amount	–	–
Additions	497	497
Amortisation charge (Note 6)	(14)	(14)
Currency translation differences	24	24
Closing net book amount	507	507
At 31 December 2009		
Cost	521	521
Accumulated amortisation and impairment	(14)	(14)
Net book amount	507	507
Year ended 31 December 2010		
Opening net book amount	507	507
Amortisation charge (Note 6)	(173)	(173)
Currency translation differences	(3)	(3)
Closing net book amount	331	331
At 31 December 2010		
Cost	518	518
Accumulated amortisation and impairment	(187)	(187)
Net book amount	331	331

14 INVESTMENT IN ASSOCIATE

	2010 US$'000	2009 US$'000
At beginning of year	1,386	926
Share of profit after tax	206	461
Foreign exchange difference (loss)/gain	(98)	(1)
At end of year	1,494	1,386

The Group's share of the results of its associate, which is listed on Riga Stock Exchange, and its share of the assets and liabilities are as follows:

Name	Country of incorporation	Assets US$'000	Liabilities US$'000	Revenue US$'000	Profit/(Loss) US$'000	% Interest held
2010						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,009	3,515	7,054	206	25.27
2009						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,293	3,907	5,600	461	25.27

15 NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2009 two locomotives owned by Estonian subsidiary of the Group, included within the Rolling stock category of property, plant and equipment have been presented as held for sale following the decision to dispose them. Those assets did not constitute a reportable segment and were previously included in All other segments category. These assets are measured at the fair value less costs to sell amounting to US$278 thousand. An impairment charge of US$117 thousand was recognised on such reclassification to bring the carrying amount of such assets to their fair value less costs to sell. The sale was completed during the year ended on 31 December 2010 without any gains or losses arising.

As at 31 December 2009 Iru depot, owned by Estonian subsidiary of the Group, included within Land and buildings category of property, plant and equipment have been presented as held for sale following the decision to dispose of it. Those assets were not allocated to any segment. These assets were measured at the fair value less costs to sell amounting to US$2,453 thousand which approximates its carrying amount. No impairment charge was recognised on such reclassification. The sale was completed during the year ended on 31 December 2010 without any gains or losses arising.

16 FINANCIAL INSTRUMENTS BY CATEGORY

31 December 2010	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Trade and other receivables[1]	93,925	93,925
Cash and cash equivalents	137,703	137,703
Total	231,628	231,628

31 December 2010	Financial liabilities measured at amortised cost US$'000	Total US$'000
Financial liabilities as per balance sheet		
Borrowings	519,039	519,039
Trade and other payables[2]	29,607	29,607
Total	548,646	548,646

31 December 2009	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Trade and other receivables[1]	83,640	83,640
Cash and cash equivalents	160,253	160,253
Total	243,893	243,893

Notes to the consolidated financial statements continued

31 December 2009	Financial liabilities measured at amortised cost US$'000	Total US$'000
Financial liabilities as per balance sheet		
Borrowings	449,131	449,131
Trade and other payables[2]	42,588	42,588
Total	491,719	491,719

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

17 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit rating, if available. For accounts receivable with no external credit rating available management assesses credit quality by reference to the prior history of working with customers. Customers with longer history of working with the Group are regarded by management as having lower risk of default.

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

	2010 US$'000	2009 US$'000
Trade and other receivables		
Counterparties with external credit rating		
Fitch's* (B+)	4,407	–
Moody's (A2)*	2,828	–
Moody's (Baa3)	–	3,048
Standard & Poor's*** (BBB-)	6,928	2,676
	14,163	5,724

	2010 US$'000	2009 US$'000
Counterparties without external credit rating		
Group 1	59,588	24,839
Group 2	1,208	36,924
	60,796	61,763
Total trade and other receivables	74,959	67,487

Group 1 – Receivables from counterparties with more than one year of working history with the Group.
Group 2 – Receivables from counterparties with less than one year of working history with the Group.

Cash at bank and short-term bank deposits[1]

	Rating	2010 US$'000	2009 US$'000
Moody's*	Aaa – A1	38,466	104,873
Moody's*	Baa1 – B3	57,410	35,857
Standard & Poor's***	BBB+ – BBB–	41,796	18,955
Fitch**	B+ – B–	1	548
Other non-rated banks		27	18
		137,700	160,251

[1]The rest of the balance sheet item Cash and cash equivalents is cash on hand

*International rating agency Moody's Investors Service
**International rating agency Fitch Rating
***International rating agency Standard & Poor's

18 TRADE AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Trade receivables – third parties	42,980	26,291
Trade receivables – related parties (Note 31)	12,701	14,469
Less: Provision for impairment of trade receivables	(1,645)	(3,285)
Trade receivables – net	54,036	37,475
Other receivables	4,658	6,208
Other receivables – related parties (Note 31)	1	19
Less: Provision for impairment of other receivables	(676)	(544)
Other receivables – net	3,983	5,683
Loans to third parties	–	21
Prepayments – related parties (Note 31)	7,917	1,656
Prepayments – third parties	74,544	43,664
Finance lease receivables – third parties	35,906	40,499
VAT recoverable	72,337	54,294
	248,723	183,292

	2010 US$'000	2009 US$'000
Less non-current portion:		
Prepayments[1]	31,665	19,907
Finance lease receivables – third parties	32,637	33,555
VAT Recoverable	63	1,072
Total non-current portion	64,365	54,534
Current portion	184,358	128,758

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

According to managements estimates, fair values of trade and other receivables do not materially differ from their carrying amounts.

All non-current receivables are due until 2017.

Receivables amounting to US$74,959 thousand (2009: US$67,487 thousand) as of 31 December 2010 were fully performing.

Receivables of US$18,966 thousand (2009: US$16,153 thousand) as of 31 December 2010 were past due but not impaired. These relate to a number of independent customers for whom there is no history of either non repayment in the past or renegotiation of the repayment terms due to inability of the customer to repay the balance. Trade receivables are impaired only when there is an indication that the customer is unable to repay the balance.

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

	2010 US$'000	2009 US$'000
Less than 1 month	17,346	10,102
From 1 to 3 months	1,032	2,885
From 3 to 6 month	303	285
From 6 months to 1 year	120	2,128
Over one year	165	753
	18,966	16,153

Trade receivables amounting to US$1,645 thousand (2009: US$3,285 thousand) as of 31 December 2010, were impaired and provided for in full. The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to US$676 thousand (2009: US$544 thousand) as of 31 December 2010, were impaired and provided for in full. It was assessed that no portion of these receivables is expected to be recovered.

Notes to the consolidated financial statements continued

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

	2010 US$'000	2009 US$'000
Currency:		
US Dollar	68,737	52,884
Russian Roubles	175,361	126,411
Euro	3,834	3,698
Other	791	299
	248,723	183,292

Movements on the Group's provision for impairment of trade and other receivables are as follows:

	2010			2009		
	Trade receivables US$'000	Other receivables US$'000	Total US$'000	Trade receivables US$'000	Other receivables US$'000	Total US$'000
At 1 January	3,285	544	3,829	2,634	–	2,634
Provision for receivables impairment (Note 6)	1,233	249	1,482	1,298	518	1,816
Bad debt written off	(2,815)	(112)	(2,927)	(242)	–	(242)
Unused amounts reversed (Note 6)	(8)	–	(8)	(378)	–	(378)
Currency translation differences	(50)	(5)	(55)	(27)	26	(1)
At 31 December	1,645	676	2,321	3,285	544	3,829

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

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

The finance lease receivables are scheduled as follows:

	Less than 1 year US$'000	Between 1 to 5 years US$'000	Over 5 years US$'000	Total US$'000
At 31 December 2010				
Minimum lease receivable	7,774	32,790	13,478	54,042
Less: Unearned finance income	(4,504)	(12,221)	(1,411)	(18,136)
Present value of minimum lease receivables	3,270	20,569	12,067	35,906
At 31 December 2009				
Minimum lease receivable	13,056	33,564	22,160	68,780
Less: Unearned finance income	(6,112)	(17,844)	(4,235)	(28,281)
Present value of minimum lease receivables	6,944	15,720	17,835	40,499

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

The amount of the unguaranteed residual values accruing to the benefit of the Group is US$nil (2009: US$nil).

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

The net investment in finance leases is analysed as follows:

	2010 US$'000	2009 US$'000
Receivable within one year	3,269	6,944
Receivable later than one year and not later than 5 years	20,570	15,720
Receivable later than 5 years	12,067	17,835
Total	35,906	40,499

Average effective interest rate implicit in finance lease agreements at 31 December 2010 is 13.04% (2009: 16.4%).

19 INVENTORIES

	2010 US$'000	2009 US$'000
Raw materials and consumables	6,918	5,759
	6,918	5,759

All inventories are stated at cost.

20 CASH AND CASH EQUIVALENTS

	2010 US$'000	2009 US$'000
Cash at bank and in hand	54,006	120,946
Short-term bank deposits	83,697	39,307
	137,703	160,253

The effective interest rate on short-term deposits was 2.95% (2009: 3.14%) in 2010 and these deposits have a maturity of 11 to 30 days (2009: 11 to 30 days).

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

	2010 US$'000	2009 US$'000
Cash and cash equivalents	137,703	160,253
Bank overdrafts (Note 24)	(745)	(1,160)
	136,958	159,093

The effective interest rate on bank overdrafts in 2010 was 2.26% (2009: 5.6%).

21 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2009	116,959,064	11,696	279,145	290,841
Issue of shares	41,176,469	4,118	345,882	350,000
Incremental costs directly attributable to the issue of new shares	–	–	(3,800)	(3,800)
At 31 December 2009/ 31 December 2010	158,135,533	15,814	621,227	637,041

The total authorised number of ordinary shares at 31 December 2010 and 31 December 2009 was 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

Year ended 31 December 2009

On 23 November 2009, the Company has increased its authorized and issued share capital from 116,959,064 shares with a par value of US$0.10 per share to 233,918,128 shares with a par value of US$0.10 per share.

On 14 December 2009, the Company has issued 29,411,764 new ordinary shares to its Parent entity as consideration for 55.56% share in Ingulana Holdings Limited, a Cypriot holding company, owning 90% share in LLC BaltTransServis, one of the leading private Russian railway transportation services operators, specialising in shipping oil products and oil for Russian oil majors and other customers.

Following the offering on 9 December 2009 of Global Depository Receipts, on 14 December 2009, the Company has issued 11,764,705 new ordinary shares out of the authorized share capital as fully paid at a price of US$8.50 (including a premium of US$8.40 per share). In the context of the offering, the existing shareholders have also sold 8,782,352 shares to the public.

The expenses directly attributable to the new shares issued amounting to US$3,800 thousand were charged against share premium (Note 4).

22 DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2010.

Notes to the consolidated financial statements continued

On 3 May 2010, the Company in its general meeting approved the payment of a dividend in respect of the year ended 31 December 2008 of 15.177 US cents per ordinary share amounting to a total dividend of US$24,000,230. The dividend was paid on 4 May 2010.

At the Annual General Meeting which will take place in May 2011, a final dividend in respect of the profit for the year ended 31 December 2010 of 37 US cents per share amounting to a total dividend of US$58,510,147 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

During the financial year ended 31 December 2010, the Group declared and paid US$21,157 thousand of dividends in favour of non-controlling interests. Pursuant to the obligation for minimum dividend distribution by Ultracare Holdings Limited and BaltTransServis, OOO US$2,003 thousand was recognised as finance cost and the remaining US$19,154 thousand was recognised as dividends.

23 DEFERRED GAINS

	2010 US$'000	2009 US$'000
Current	150	338
Non-current	–	178
	150	516

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

24 BORROWINGS

	2010 US$'000	2009 US$'000
Current		
Bank overdrafts (Note 20)	745	1,160
Bank borrowings	119,601	101,789
Non-convertible unsecured bonds	21,528	–
Finance lease liabilities	49,275	50,503
	191,149	153,452
Non-current		
Bank borrowings	219,426	147,608
Non-convertible unsecured bonds	78,397	–
Finance lease liabilities	30,067	148,071
	327,890	295,679
Total borrowings	519,039	449,131
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	117,346	91,323
Between 2 and 5 years	174,820	56,285
Over 5 years	5,657	–
	297,823	147,608

	2010 US$'000	2009 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	54,161	64,492
Later than 1 year and not later than 5 years	31,383	164,278
Future finance charges of finance leases	(6,202)	(30,196)
Present value of finance lease liabilities	79,342	198,574
The present value of finance lease liabilities is as follows:		
Not later than 1 year	49,275	50,503
Later than 1 year and not later than 5 years	30,067	148,071
	79,342	198,574

Bank borrowings

Bank borrowings mature by 2017 and bear average interest of 8.2% per annum (2009: 8.7% per annum).

There were no defaults or breaches of loan terms during the year ended 31 December 2010.

Year ended 31 December 2010

The current and non-current bank borrowings amounting to US$118,771 thousand and US$211,662 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$8,594 thousand are unsecured.

The bank and financial institutions loans of a total amount of US$330,433 thousand are secured by property, plant and equipment at the carrying net book value of US$396,049 thousand (Note 12).

Year ended 31 December 2009

The current and non-current bank borrowings amounting to US$87,791 thousand and US$145,577 thousand respectively are secured by pledge of rolling stock and assignment of rights under contracts for organization of transportation services. The remaining bank borrowings amounting to US$16,029 thousand are unsecured.

The bank and financial institutions loans of a total amount of US$233,368 thousand are secured by property, plant and equipment at the carrying net book value of US$321,664 thousand (Note 12).

Furthermore, borrowings amounting to US$48,190 thousand and finance lease and sale and leaseback contracts for financing the purchase of rolling stock amounting to US$60,682 thousand are guaranteed by related parties (Note 31).

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

	2010 US$'000	2009 US$'000
6 months or less	297,776	343,887
6 to 12 months	58,551	13,654
1 to 5 years	157,055	91,590
over 5 years	5,657	–
	519,039	449,131

The carrying amount and fair value of non-current borrowings are as follows:

	Carrying amount		Fair value	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Bank borrowings	219,426	147,608	219,426	147,608
Non-convertible unsecured bonds	78,397	–	79,551	–
Finance lease liabilities	30,067	148,071	29,566	143,832
	327,890	295,679	328,543	291,440

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant.

The fair values of bank borrowings and finance lease liabilities are based on cash flows discounted using a rate based on the appropriate Libor and MosPrime[1] rates. The fair value of non-convertible bonds, which are listed on MICEX[2], is based on the latest quoted price for such bonds.

[1]MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian Rouble deposits.
[2]Moscow Interbank Currency Exchange

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2010 US$'000	2009 US$'000
US Dollar	113,115	287,788
Russian Rouble	405,753	159,909
Euro	171	1,434
	519,039	449,131

Notes to the consolidated financial statements continued

The Group has the following undrawn borrowing facilities:

	2010 US$'000	2009 US$'000
Floating rate:		
Expiring within one year	37,384	31,892
Fixed rate:		
Expiring within one year	8,531	4,298
Expiring beyond one year	22,752	27,886
	68,667	64,076

The weighted average effective interest rates at the balance sheet were as follows:

	2010 %	2009 %
Bank overdrafts	2.3	5.6
Bank borrowings	8.2	9.3
Non-convertible unsecured bonds	9.3	–
Finance lease liabilities	9.1	8.7

[1]MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian Rouble deposits.

25 DEFERRED INCOME TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	2010 US$'000	2009 US$'000
Deferred tax liabilities:		
- Deferred tax liability to be recovered after more than 12 months	34,122	29,257
- Deferred tax liability to be recovered within 12 months	(1,692)	(1,302)
Deferred tax liabilities (net)	32,430	27,955

The gross movement on the deferred income tax account is as follows:

	2010 US$'000	2009 US$'000
Beginning of year	27,955	23,673
Income statement charge (Note 10)	6,979	4,633
Withholding tax on actual dividend distribution	(2,337)	–
Exchange differences	(167)	(351)
End of year	32,430	27,955

The movement on the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Property, plant and equipment US$'000	Lease liability US$'000	Tax losses US$'000	Trade and other payables US$'000	Withholding tax provision US$'000	Other assets US$'000	Other liabilities US$'000	Total US$'000
At 1 January 2009	52,595	(39,657)	(540)	(499)	7,879	4,638	(743)	23,673
Charged/(credited) to:								
Income statement (Note 10)	(10,113)	9,377	(765)	(111)	145	6,460	(287)	4,706
Currency translation differences	(2,008)	1,553	(23)	9	(218)	206	57	(424)
At 31 December 2009/ 1 January 2010	40,474	(28,727)	(1,328)	(601)	7,806	11,304	(973)	27,955
Charged/(credited) to:								
Income statement (Note 10)	(12,617)	19,799	1,322	(980)	4,209	(5,240)	486	6,979
Withholding tax on actual dividend distribution	–	–	–	–	(2,337)	–	–	(2,337)
Currency translation differences	(261)	153	6	7	(8)	(70)	6	(167)
At 31 December 2010	27,596	(8,775)	–	(1,574)	9,670	5,994	(481)	32,430

Deferred tax liabilities are expected to be settled after more than twelve months.

Deferred tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable.

The Group did not recognize deferred income tax assets of USS$16 thousand in 2010 (2009: USS$2 thousand) in respect of cumulative tax losses amounting to US$160 thousand (2009: US$20 thousand) as it is uncertain whether taxable profits will be earned in the future which would offset the taxable losses incurred. There is no time limit for the utilization of these tax losses.

Deferred income tax liabilities of US$44,546 thousand (2009: US$35,071 thousand) have not been recognised for the withholding taxes that would be payable on the unremitted earnings of certain subsidiaries. It is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings totaled US$387,749 thousand as at 31 December 2010 (2009: US$289,729 thousand).

26 TRADE AND OTHER PAYABLES

	2010 US$'000	2009 US$'000
Current		
Trade payables to third parties	15,672	18,125
Trade payables to related parties (Note 31)	1,315	993
Other payables to related parties (Note 31)	–	7,070
Other payables to third parties[2]	13,256	9,220
Accrued expenses	9,530	4,976
Advances from customers[1]	24,400	20,156
Advances from related parties (Note 31)[1]	3,029	3,544
	67,202	64,084
Non-current		
Other payables to third parties[2]	10,467	11,105
	10,467	11,105

[1]Advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services.
[2]Includes liability for minimum dividend distribution obligation to non-controlling shareholders which are not at the discretion of the Group.

The fair value of trade and other payables approximates their carrying amount at the balance sheet date.

27 EARNINGS PER SHARE

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit attributable to equity holders of the company (US$ thousand)	177,322	88,057
Weighted average number of ordinary shares in issue (thousand)	158,136	118,990
Basic and diluted earnings per share (expressed in US$ per share)	1.12	0.74

28 BUSINESS COMBINATIONS

Year ended 31 December 2009

On 30 December 2009, the Group acquired a 100% shareholding in Ekolinja OY, a Finnish entity engaged in sub-lease of rolling stock mainly to clients in Russia for the total consideration of US$14 thousand. Since the acquisition occurred at the year end, the acquired business did not contribute any revenue and net profit in 2009. Fair values of identifiable net assets acquired were estimated at US$29 thousand, consequently negative goodwill of US$15 thousand was recognised in these financial statements (Note 7).

29 CONTINGENCIES

Operating environment

The Group and its subsidiaries operate mainly in the Russian Federation and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

Notes to the consolidated financial statements continued

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Estonia represents a well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

The Group's business is heavily dependent on services provided by OAO "Russian Railways" and the ageing railway infrastructure operated by it. OAO "Russian Railways" plays a monopolistic role as the sole railway infrastructure operator and it enjoys a near monopoly in locomotives services in the Russian Federation. The Group depends on the railway infrastructure operated, and for traction and other services provided, as well as on operational data generated, by OAO "Russian Railways". In addition, the physical infrastructure and the rail network had been inadequately maintained and there can be no assurance that it will not lead to material disruption of the Group's business in the future.

Debtors and borrowers of the Group, including counterparties for finance lease receivables and suppliers to whom advances have been made for delivery of property, plant and equipment may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers, debtors, lessees and suppliers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Finally, the Group's business is heavily dependent on a few large key customers. The Group does not have long-term contracts with any of these customers and although it has enjoyed good working relations with these customers to date, there can be no assurance that it will retain their custom in the future or that their custom, if lost, could be easily replaced by that of other customers on comparable terms and volume.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Tax legislation in Russia

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

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group includes companies incorporated outside of Russia. Tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax because they do not have a permanent establishment in Russia. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of the interpretation of these rules and the changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

Based on the results of tax inspection of OOO Sevtekhnotrans, a subsidiary of the Company, for 2008-2009 which was carried out in 2010 tax authorities have claimed additional income tax and VAT in the amount of RUB59,956 thousand (US$1,967 thousand at 31 December 2010 exchange rates) and RUB83,492 thousand (US$2,740 thousand at 31 December 2010 exchange rates) respectively. The tax authorities argued that the above underpayment occurred due to the fact that OOO Sevtekhnotrans leased out tank wagons to OJSC New Forwarding Company, another subsidiary of the Company, applying rent rates below market level. There is a risk that tax authorities will raise a similar claim in respect of 2010, as OOO Sevtekhnotrans had similar pricing arrangements with OJSC New Forwarding Company, however the amount of exposure cannot be reliably estimated.

Based on its interpretation of tax legislation and analysis of court practice management believes that it is not probable that the Group will incur outflow of economic resources as a result of this claim, consequently, no provision has been recorded in these consolidated financial statements.

Compliance with covenants

The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including claims for early repayment. The Group is in compliance with covenants as of 31 December 2010 and 31 December 2009 (Note 24).

Insurance policies

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

Environmental matters

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

Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. During the year ended 31 December 2007 the LLC BaltTransServis, a subsidiary of the Company, provided a guarantee to Sberbank RF for a long-term loan received by a third party. Guarantee is free of charge, is limited to US$45,000 thousand per year and was issued for a period of 5 years. Guarantee was initially recognised at estimated fair value of US$3,536 thousand. The obligation of the third party was settled in full in May 2010; consequently, the guarantee to Sberbank RF was cancelled at the same time.

Maximum possible exposure under the financial guarantee as at 31 December 2009 is disclosed in Note 3(d).

As at 31 December 2010 the carrying value of the guarantee was Nil (2009: US$965 thousand).

Amortisation of the guarantee in amount of US$961 thousand was recorded in the income statement for the year ended 31 December 2010 (2009: US$1,798 thousand).

Legal proceedings

During the year ended 31 December 2010, the Group was involved as a claimant in a number of court proceedings.

During the year ended 31 December 2009, the Group was involved in a number of court proceedings as defendant on claims of its customers and as a third party between the tax authorities and certain of its clients. The Group has charged 18% VAT for transporting cargos to seaport terminals located in the Russian Federation for further export from the terminals that had not been placed under export regime prior to being delivered to the terminal. The tax authorities challenged the recoverability of such VAT by a number of the Group's clients on the grounds that the transportation should have been subject to 0% VAT.

As at 31 December 2010 majority of the claims in which the Group was involved as a defendant were withdrawn since the court supported position of the Group's customers. In respect of claims where the Group is involved as a third party, decisions of the courts of first and second instance also support the position of the Group's customers.

Based on its interpretation of tax legislation and analysis of court practice management believes that it is not probable that the Group will incur outflow of economic resources as a result of the existing and potential claims from its customers to pay back amounts equal to VAT previously charged, consequently, no provision has been recorded in these consolidated financial statements.

AS Eesti Raudtee (Estonian Railways) has filed a claim against AS Spacecom, a subsidiary of the Company, for reimbursement of unpaid invoices in the total amount of EEK 119,497 thousand (approximately USD 10,204 thousand at 31 December 2010 exchange rates) and a late payment interest of EEK 122,368 thousand (approximately USD 10,449 thousand at 31 December 2010 exchange rates) for the period from 31 May 2004 to 31 May 2005. The Group has recognized the full amount of the unpaid invoices as liabilities under current trade payables but has made no provision for the late payment interest. In February 2010, the Estonian court of first instance decided against AS Spacecom in the amount of EEK250,664 thousand (USD21,405 thousand at 31 December 2010 exchange rates) for the unpaid invoices, late payment, costs and legal fees.

The Group is indemnified for up to 61% of any potential losses arising from this case over and above the amounts already provided in the consolidated financial statements of the Group pursuant to the indemnification clauses included in the share purchase agreements in relation to this litigation. Management believes that there is no need for any further provision in relation this legal case. Refer to Note 34 for the recent developments in this case.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2010 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

Notes to the consolidated financial statements continued

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2010 US$'000	2009 US$'000
Property, plant and equipment	–	209,833

(b) Operating lease commitments – Group as lessee

The Group leases offices under non-cancellable operating lease agreements. The lease terms are between seven to twelve months and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. The lease terms are generally between two months to one year. The lease expenditure charged to the income statement during the years is disclosed in Note 6.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010 US$'000	2009 US$'000
Not later than 1 year	117,261	20,041
Later than 1 year not later than 5 years	22,645	–
	139,906	20,041

(c) Operating lease commitments – Group as lessor

	2010 US$'000	2009 US$'000
Not later than 1 year	7,360	11,813
Later than 1 year not later than 5 years	1,549	–
	8,909	11,813

The Group leases out rolling stock and locomotives under cancellable and non-cancellable operating lease agreements. The lease terms are generally 12 months and the majority of lease agreements are renewable at the end of the lease period at market rate. The Group is required to give up to a three-month notice for the termination of these agreements.

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2010 (2009: US$nil).

31 RELATED PARTY TRANSACTIONS

The Group is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 14.5% (including the holding of GDRs of the Company) of the Company's shares. Further, the Directors of the Company control 0.1% of the Company's shares through their holdings of GDRs. The remaining 35.3% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Group is Mirbay International Inc., which is registered in Bahamas.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2010 US$'000	2009 US$'000
Sales of services:		
Associate	3	–
The Parent	–	10
Other related parties:		
Entities under control of the Parent	23,599	28,845
Entities under significant influence of the Parent	27,618	28,256
Entities under significant influence of members of key management	83,201	61,706
	134,421	118,817

(b) Purchases of goods and services

	2010 US$'000	2009 US$'000
Purchases of services:		
Associate	324	391
Other related parties		
Entities under control of the Parent	3,484	3,383
Entities under control by parties with significant influence over the Group	1,053	1,007
Entities under significant influence of the Parent	2,399	1,466
Entities under significant influence of members of key management	25,524	21,916
	32,784	28,163

(c) Additions and disposals of property, plant and equipment

	2010 US$'000	2009 US$'000
Additions:		
Other related parties		
Entities under control of the Parent	882	373
Entities under significant influence of members of key management	415	319
	1,297	692
Disposals:		
Other related parties: entities under significant influence of members of key management	8	17

(d) Interest income and expenses

	2010 US$'000	2009 US$'000
Interest expense (Note 9):		
The parent	(899)	(5,360)
	(899)	(5,360)

Interest expense to the parent in the year ended 31 December 2010 consists of interest on consideration payable for the acquisition of Estonian subsidiaries of the Group for the amount of US$348 thousand (2009: US$2,296 thousand) and unwinding of discounting effect on such liability for the amount of US$551 thousand (2009: US$2,426 thousand) included in Other finance costs. Interest expense to the parent in the year ended 31 December 2009 also included interest expense on loans for the amount of US$638 thousand.

(e) Directors and key management compensation

	2010 US$'000	2009 US$'000
Directors' remuneration[1]	1,396	731
Key management salaries and other short-term employee benefits[2]	16,556	8,551
	17,952	9,282

[1]Includes remuneration of executive directors paid by the subsidiaries of the Group
[2]Key management salaries and other short-term employee benefits above include bonuses amounting to US$11,629 thousand for the year ended 31 December 2010 (2009: US$4,247 thousand).

Notes to the consolidated financial statements continued

(f) Year-end balances arising from sales/purchases of goods/services

	2010 US$'000	2009 US$'000
Trade receivable from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	3,110	2,679
Entities under significant influence of the Parent	1,305	1,478
Entities under significant influence of members of key management	7,898	10,302
The Parent	–	10
	12,313	14,469
Other receivables from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	–	8
Entities under significant influence of the Parent	1	–
Entities under significant influence of members of key management	–	9
Associate	–	2
	1	19
Prepayments to related parties (Note 18):		
Other related parties		
Entities under control of the Parent	361	286
Entities under significant influence of the Parent	–	1
Entities under significant influence of members of key management	7,556	1,369
	7,917	1,656

	2010 US$'000	2009 US$'000
Trade payables to related parties (Note 26):		
Other related parties		
Entities under control of the Parent	6	247
Entities under significant influence/joint control of the Parent	13	315
Entities under significant influence of members of key management	1,296	431
	1,315	993
Other payables to related parties (Note 26):		
Current:		
The parent	–	7,064
Other related party: entities under significant influence of members of key management	–	6
	–	7,070
Advances from related parties (Note 26):		
Other related parties		
Entities under control of the Parent	2,038	2,258
Entities under significant influence of the Parent	255	624
Entities under significant influence of members of key management	736	662
	3,029	3,544

(g) Loans from related parties

	2010 US$'000	2009 US$'000
The parent:		
Beginning of year	–	18,379
Loans advanced during the year	–	30,000
Loans repaid during the year	–	(46,265)
Interest charged	–	638
Interest repaid	–	(3,376)
Foreign exchange gain	–	624
End of year	–	–

The loans from the parent had the following terms and conditions:

The balance at the beginning of 2009 carried an average interest of 10.43% and was payable in June 2012. All of the loans were settled ahead of schedule. No penalties or rewards were incurred as a result of early settlement except for the interest savings. The loan advanced in 2009 carried an interest of 1% and was provided for up to 10 days.

(h) Guarantees by related parties

Borrowings and finance lease and sale and leaseback contracts for financing the purchase of rolling stock are guaranteed by related parties as follows (Note 24):

	2010 US$'000	2009 US$'000
Borrowings guaranteed by:		
The parent and entities with significant influence over the Group	–	18,491
The parent	–	29,699
	–	48,190
Finance lease and sale and leaseback contracts guaranteed by:		
The parent and entities with significant influence over the Group	–	19,919
The parent and other related parties	–	3,373
The parent	–	37,390
	–	60,682

(i) Other transactions with related parties

Year ended 31 December 2010:

- In accordance with the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans and amendments thereto, in April 2010, the Company has settled in full its liability to the Parent including accrued interest.

Year ended 31 December 2009:

- In November 2009 the Company has entered into a contribution and subscription agreement with its Parent entity. The contribution and subscription agreement provided for the transfer to the Company by the Parent of an effective 55.56 per cent share in Ingulana Holdings Limited, a Cypriot holding company, owning effective 90 per cent economic interest and a majority controlling interest in OOO BaltTransServis ("BTS") in exchange for 29,411,764 new ordinary shares issued by the Company with a total value of US$250 million.
- In February 2009 the Company entered into additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle installments ahead of schedule. These early repayments result in a gain of US$216 thousand for the Company.
- In September 2009, the Company concluded an additional agreement with the Parent entity whereby the schedule of payments of consideration for the purchase from the Parent entity of the Group's share in the Estonian Subsidiaries was amended as the Group was able to partially re-finance this interest-bearing liability on more favourable terms. Pursuant to the amended payment schedule, in September 2009 the Company settled US$25 million which was due in 2010 plus interest accrued on that amount and a further payment of US$7 million plus interest accrued on that amount was made in October 2009. According to the amended schedule, the remaining balance of US$7 million plus interest is payable by 1 May 2010. This early repayment did not result in a significant gain/loss for the Company except for the saving on the future interest that would have been accrued on such liability.

(j) Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases with other related parties are as follows:

	2010 US$'000	2009 US$'000
Not later than 1 year	15,682	12,393
Later than 1 year and not later than 5 years	1,555	–
	17,237	12,393

Operating lease commitments with 'other related parties' amounting to US$16,198 were entities under significant influence of members of key management (2009: US$11,816), the rest of the commitments were to entities under control of the Parent.

Notes to the consolidated financial statements continued

(j) Operating lease commitments – Group as lessor

The future minimum lease payments receivable under operating leases with other related parties are as follows:

	2010 US$'000	2009 US$'000
Not later than one year	9	8,894

All commitments on 31 December 2010 were from entities under control of the Parent; on 31 December 2009 all commitments were from entities under significant influence of the Parent.

32 COMMON CONTROL TRANSACTION

Year ended 31 December 2009

In December 2009, the parent entity of the Company has contributed its 55.56% shareholding in Ingulana Holdings Limited, Cyprus to the Company for the consideration of 29,411,764 ordinary shares of the Company that were issued to the parent entity at the same time at the price of US$8.50 per share including a share premium of US$8.40 per share. The total consideration for the acquisition amounted to US$250,000 thousand. Ingulana Holdings Limited is a pure investing holding company holding 90% share and a majority controlling interest in LLC BaltTransServis, Russia, one of the leading private operators in the Russian railway transportation industry, specializing in shipping oil products and oil, mostly fuel oil, diesel and gasoline. It also provides logistics services for oil product delivery and distribution to shipping terminals.

The acquisition of 55.56% of Ingulana Holdings Limited, and consequently 50% controlling interest in LLC BaltTransServis, has been accounted for as a common control transaction using the predecessor basis (Note 2). The carrying value of its net assets as of 1 December 2004 were used to account for the common control transaction reserve, since these are the dates common control has been established.

On acquisition of LLC BaltTransServis by Transportation Investments Holding Limited on 1 December 2004, its net assets were consolidated in the financial statements of Transportation Investments Holding Limited using the purchase method of accounting.

The acquired business contributed revenues of US$710,398 thousand and net profit of US$69,811 thousand in 2009, revenues of US$784,160 thousand and net profit of US$45,189 thousand in 2008. These amounts have been calculated using the Group's accounting policies.

The carrying amounts of assets and liabilities of LLC BaltTransServis were as follows:

	31 December 2009 US$'000
Cash and cash equivalents	23,003
Property, plant and equipment	156,527
Inventories	4,765
Trade and other receivables	38,983
Current income tax assets	29
Trade and other payables	(21,464)
Borrowings	(40,913)
Deferred income tax liabilities	(352)
Current income tax liabilities	(512)
less Net assets attributable to non-controlling participants in redeemable shares	–
less Non-controlling interest in net assets acquired	(80,033)
Carrying value of net assets acquired	80,033

33 NET ASSETS ATTRIBUTABLE TO NON-CONTROLLING PARTICIPANTS IN REDEEMABLE SHARES

	Net assets attributable to non-controlling participants in redeemable shares US$'000
At 1 January 2009	16,164
Share of net profit attributable to non-controlling participant	7,741
Distributions to non-controlling participants (Note 9)	(7,451)
Exchange of liability to non-controlling participants in redeemable shares for equity instruments	(12,005)
Exchange of liability to non-controlling participants in redeemable shares for new financial liability for minimum dividends distribution	(4,002)
Exchange difference	(447)
At 31 December 2009/ 1 January 2010/ 31 December 2010	–

Following restructuring in December 2009, the Group exchanged the liability to the non-controlling participant in puttable instruments of LLC BaltTransServis with a new liability, being the minimum dividend income distribution of 25% of distributable reserves of the relevant subsidiaries and an equity element for the remaining part of the participatory interest of that non-controlling shareholder in this subgroup for which there is no liability for minimum dividend distribution.

As a result of the exchange of these liabilities, the Group transferred 75% of the liability for the non-controlling interest's in puttable instruments of LLC BaltTransServis which amounted to US$12,005 thousand, to non-controlling interest in equity. The remaining liability for US$4,002 thousand was replaced with a new liability of US$12,500 thousand, giving rise to a loss on the exchange of these liabilities of US$8,498 thousand which is recognised in the income statement as part of finance costs. (Note 9)

34 EVENTS AFTER THE BALANCE SHEET DATE

In January 2011, Tallinn Circuit Court published a ruling which satisfied the claim of Estonian Railways against AS Spacecom, a subsidiary of the Company, in the amount of EUR15,078 thousand (USD19,977 thousand at 31 December 2010 exchange rates) for the unpaid invoices and late payment, plus costs and legal fees. The amount of penalties was reduced by EUR942 thousand (US$1,248 thousand). The Group has filed an appeal and the management expects that the outcome will be favourable for the Group; consequently no provision in addition to the amounts already provided for this matter was made in these financial statements.

In January – March 2011 the Group has settled the following obligations ahead of schedule (in each case the early settlement has not resulted in any significant gains or losses for the Group):

- Finance lease liabilities in the total amount of RUB258,232 thousand (US$8,473 thousand at 31 December 2010 exchange rates);
- Bank borrowings in the total amount of RUB619,565 thousand (US$20,329 thousand at 31 December 2010 exchange rates).

In January – March 2011 the Group has received RUB445,000 thousand (US$14,601 thousand at 31 December 2010 exchange rates) of bank borrowings.

There were no other material events after the balance sheet date, which have a bearing on the understanding of the financial statements.

Independent Auditor's Report on pages 6 to 7.

Appendix 2: Directors' report and parent company financial statements

for the year ended 31 December 2010

Contents

Directors’ report and parent company financial statements for the year ended 31 December 2010

Board of Directors and other officers 1
Report of the Board of Directors 2
Directors’ responsibility 6
Independent Auditor’s Report 7
Income statement 9
Statement of comprehensive income 10
Balance sheet 11
Statement of changes in equity 12
Cash flow statement 13

Notes to the financial statements

1. General information 14
2. Summary of significant accounting policies 14
3. Financial risk management 20
4. Critical accounting estimates and judgements 22
5. Revenue 23
6. Other gains/(losses) – net 23
7. Expenses by nature 23
8. Employee benefit expense 23
9. Finance costs – net 24
10. Income tax expense 24
11. Net foreign exchange gains 24
12. Dividends 24
13. Property, plant and equipment 25
14. Investments in subsidiary undertakings 25
15. Financial instruments by category 26
16. Credit quality of financial assets 26
17. Loans and other receivables 27
18. Cash and cash equivalents 27
19. Share capital and share premium 27
20. Payables and accrued expenses 28
21. Related party transactions 28
22. Contingencies 30
23. Events after the balance sheet date 31

Board of Directors and other officers

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee

Mr. Michael Zampelas
Senior Independent non-executive Director
Chairman of the Audit Committee
Member of Remuneration and Nomination Committees

Dr. Johann Franz Durrer
Independent non-executive Director
Chairman of the Remuneration Committee
Chairman of the Nomination Committee

Mr. Sergey Maltsev
Executive Director

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

Ms. Elia Nicolaou
Non-executive Director
Member of the Audit Committee

Mr. Konstantin Shirokov
Executive Director

Board support

The Company Secretary is available to advise all Directors and ensure that Board procedures are complied with. The position is appointed and can be removed by the Board.

A procedure is in place to enable Directors, if they so wish, to seek independent professional advice at the Company's expense.

Company Secretary

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

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol,
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2010. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

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

The net profit of the Company for the year ended 31 December 2010 was US$59,457 thousand (2009: net loss of US$4,902 thousand). On 31 December 2010 the total assets of the Company were US$731,538 thousand (2009: US$705,414 thousand) and net assets were US$726,931 (2009: US$695,317). The financial position, development and performance of the Company as presented in the financial statements is considered satisfactory.

Principal risks and uncertainties

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

The Company's contingencies are disclosed in Note 22 to the financial statements.

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

Future developments

The Board of Directors does not expect any significant changes in the activities of the Company for the foreseeable future.

The Group's strategic objective is to strengthen its position as a leading private freight rail group in Russia. The Group intends to continue its return-oriented expansion pursuing the strategy of opportunistic growth. The Group will also continue its focus on effective fleet management.

Results

The Company's results for the year are set out on pages 9 and 10. The Board of Directors recommended the payment of a dividend in relation to the year 2010 as detailed below and the remaining net profit for the year is carried forward.

Dividends

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

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

During 2010 the Board of Directors has not declared any interim dividends in relation to 2010.

In May 2010 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2008 in the amount of 15.177 US cents per ordinary share, amounting to a total dividend of US$24,000,230.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2010 in the amount of 37 US cents per ordinary share, amounting to a total dividend of US$58,510,147.

Share capital

As at 31 December 2010 and 31 December 2009 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2010 and 31 December 2009 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share.

Report of the Board of Directors continued

The role of the Board of Directors

The Company is managed by the Board of Directors which is collectively responsible to the shareholders for the success of the Company.

The Board sets the strategic objectives and ensures that the necessary resources are in place to enable these objectives to be met. The Board is fully involved in decision making in the most important areas of business and conducts regular reviews of the Company's operational and financial performance. One of the Board's key responsibilities is to ensure that there is in place a system of prudent and effective risk controls that enable risks to be identified, assessed and managed appropriately.

Members of the Board of Directors

The Board comprises seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2010 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2010.

There is no provision in the Company's Articles of Association for retirement of Directors by rotation; however, in accordance with the Terms of reference of the Board of Directors all board members are required to submit for re-election at least once every three years. Should a non-executive Director serve any term beyond six years, his re-election would be subject to particularly rigorous review. In practice, all current appointments are for one year and all directors will stand for re-election at the forthcoming Annual General Meeting of shareholders of the Company.

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors in 2010 amounted to US$384 thousand (2009: US$395 thousand).

Directors' interests

The interests in the share capital of the Company, both direct and indirect, of those who were Directors as at 31 December 2010 is shown below:

Name	Type of holding	Shares/Global Depositary Receipts held at 31 December 2010	Shares/Global Depositary Receipts held at 31 December 2009
Alexander Eliseev	Through shareholding in Envesta Investments Ltd and other entities controlled by him	11,318,909	11,318,909
Sergey Maltsev	Through shareholding in Envesta Investments Ltd	11,658,456	11,658,456
Johann Franz Durrer	GDRs of Globaltrans Investment PLC	100,000	100,000

Total number of issued shares of the Company as at 31 December 2010 and 31 December 2009 was 158,135,533.

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 23 to the parent company financial statements.

Board performance

The Board held 16 meetings in 2010. The Directors' attendance record is presented in the table below.

	Attended
Alexander Eliseev	8
Michael Zampelas	16
Johann Franz Durrer	16
Sergey Maltsev	2
Mikhail Loganov	16
Elia Nicolaou	16
Konstantin Shirokov	16

The Board Committees

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

Audit Committee

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

Report of the Board of Directors

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

The Company is committed to maintaining the highest standards of corporate governance throughout the Company and the Group. In March 2008, the Board of Directors adopted the Company's Code of Corporate Governance which guarantees that the interests of all company shareholders are given due consideration. Although the Code is based on principles recommended by the UK Combined Code on Corporate Governance, this does not constitute voluntary compliance with such Combined Code. Our corporate governance policies and practices are designed to ensure that we are focused on upholding our responsibilities to our shareholders and include policies on appointment of independent directors, establishment and constitution of the audit and other committees, ethical conduct, securities dealings and disclosure. Full details can be found at http://www.globaltrans.com/about-us/corporate-governance /governance-policies/. Our employees are required to follow these guidelines and our management is responsible for ensuring that all departments adhere to these standards.

Board and Management Remuneration

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

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

The shareholders of the Company approved the remuneration of the members of the Board of Directors at the Annual General Meeting of shareholders held on 3 May 2010.

Refer to Note 21 of the parent company financial statements for detail of remuneration paid to the members of the Board and other members of key management personnel.

Branches

The Company did not operate through any branches during the year.

Treasury shares

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

Going concern

Directors have access to all information necessary to exercise their duties. The Directors continue to adopt the going concern basis in preparing the accounts based on the fact that, after making enquiries and following a review of the Company's budget for 2011, including cash flows and borrowing facilities, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future.

Report of the Board of Directors continued

Auditors

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

By Order of the Board

Alexander Eliseev
Chairman of the Board of Directors
Limassol
1 April 2011

Directors' responsibility

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

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

Each of the Director's confirms to the best of his or her knowledge that the financial statements (presented on pages 9 to 31) have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and give a true and fair view of the financial position, financial performance and cash flows of the Company.

By order of the Board

Sergey Maltsev
Director

Mikhail Loganov
Director

Independent Auditor's Report To the Members of Globaltrans Investment PLC

Report on the Financial Statements

We have audited the parent company financial statements of Globaltrans Investment PLC (the "Company") , which comprise the balance sheet at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

Board of Directors' Responsibility for the Financial Statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Globaltrans Investment PLC as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

Report on Other Legal Requirements

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

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

Other Matter

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

PricewaterhouseCoopers Limited

Chartered Accountants
Limassol, 1 April 2011

Income statement
for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Revenue	5	64,777	4,283
Selling and marketing costs		(55)	(94)
Administrative expenses		(2,768)	(5,724)
Other gains/(losses) – net	6	682	(393)
Operating profit/(loss)		62,636	(1,928)
Finance costs	9	(763)	(3,005)
Finance income	9	28	31
Finance costs – net	9	(735)	(2,974)
Profit/(loss) before tax		61,901	(4,902)
Tax	10	(2,444)	–
Profit/(loss) for the year		59,457	(4,902)

The notes on pages 14 to 31 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2010

	2010 US$'000	2009 US$'000
Profit/(loss) for the year	59,457	(4,902)
Other comprehensive loss: Currency translation differences	(3,843)	(10,597)
Other comprehensive loss for the year, net of tax	(3,843)	(10,597)
Total comprehensive profit/(loss) for the period	55,614	(15,499)

Items in the statement above are disclosed net of tax. There is no income tax relating to the components of other comprehensive income above.

The notes on pages 14 to 31 are an integral part of these financial statements.

Balance sheet
at 31 December 2010

	Note	2010 US$'000	2009 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	541,958	540,294
Property, plant and equipment	13	36	49
Loans and other receivables	17	100,370	58,015
Total non-current assets		642,364	598,358
Current assets			
Loans and other receivables	17	53,670	2,169
Cash and cash equivalents	18	35,504	104,887
Total current assets		89,174	107,056
TOTAL ASSETS		731,538	705,414
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	15,814	15,814
Share premium	19	621,227	621,227
Capital contribution		90,000	90,000
Translation reserve		(59,866)	(56,023)
Retained earnings		59,756	24,299
Total equity		726,931	695,317
Non-current liabilities			
Payables and accrued expenses	20	–	138
Total non-current liabilities		–	138
Current liabilities			
Current income tax liabilities		71	33
Payables and accrued expenses	20	4,536	9,926
Total current liabilities		4,607	9,959
TOTAL LIABILITIES		4,607	10,097
TOTAL EQUITY AND LIABILITIES		731,538	705,414

On 1 April 2011 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Maltsev, Director   Mikhail Loganov, Director

The notes on pages 14 to 31 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2010

	Note	Share capital US$'000	Share premium US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings[2] US$'000	Total US$'000
Balance at 1 January 2009		11,696	279,145	(45,426)	90,000	29,201	364,616
Comprehensive income							
Loss for the year		–	–	–	–	(4,902)	(4,902)
Other comprehensive loss							
Currency translation differences		–	–	(10,597)	–	–	(10,597)
Total comprehensive income for 2009		–	–	(10,597)	–	(4,902)	(15,499)
Transactions with owners							
Issue of shares[1]	19	4,118	345,882	–	–	–	350,000
Incremental costs directly attributable to the issue of new shares	19	–	(3,800)	–	–	–	(3,800)
Total transactions with owners		4,118	342,082	–	–	–	346,200
Balance at 31 December 2009 / 1 January 2010		15,814	621,227	(56,023)	90,000	24,299	695,317
Comprehensive income							
Profit for the year		–	–	–	–	59,457	59,457
Other comprehensive loss							
Currency translation differences		–	–	(3,843)	–	–	(3,843)
Total comprehensive income for 2010		–	–	(3,843)	–	59,457	55,614
Transactions with owners Dividend relating to 2008	12	–	–	–	–	(24,000)	(24,000)
Total transactions with owners							
Balance at 31 December 2010		15,814	621,227	(59,866)	90,000	59,756	726,931

[1] In December 2009, the Company has issued 41,176,469 new ordinary shares with a par value of US$0.10 as fully paid at a price of US$8.50, including a premium of US$8.40 per share.

[2] Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

The notes on pages 14 to 31 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 December 2010

	Note	2010 US$'000	2009 US$'000
Cash flows from operating activities			
Profit/(loss) before tax		61,901	(4,902)
Adjustments for:			
Depreciation of property, plant and equipment	13	13	6
Interest income	9	(28)	(31)
Interest expense	9	705	4,700
Exchange losses/(gains) on financing activities	11	58	(1,695)
Fair value losses on financial guarantees	9	–	395
Amortisation of financial guarantees	9	(615)	–
Operating cash flows before working capital changes		62,034	(1,528)
Changes in working capital:			
Other receivables		(33,057)	(5,530)
Payables and accrued expenses		(1,898)	1,843
Net cash generated from/(used in) operations		27,079	(5,215)
Tax paid		(550)	–
Net cash generated from/(used in) operating activities		26,529	(5,215)
Cash flows from investing activities			
Acquisition of subsidiaries		(7,000)	(71,784)
Purchases of property, plant and equipment	13	–	(44)
Capital contribution to subsidiaries	14	(1,275)	(203)
Loans granted to related parties	21	(132,670)	(32,000)
Loan repayments received from related parties	21	70,000	32,000
Interest received		28	31
Net cash used in investing activities		(70,917)	(72,000)
Cash flows from financing activities			
Interest paid		(964)	(1,680)
Proceeds from the issue of shares		–	96,209
Dividends paid to Company's shareholders		(24,000)	–
Net cash (used in)/generated from financing activities		(24,964)	94,529
Net (decrease)/increase in cash and cash equivalents		(69,352)	17,314
Exchange losses on cash and cash equivalents		(31)	–
Cash and cash equivalents at beginning of year	18	104,887	87,573
Cash and cash equivalents at end of year	18	35,504	104,887

The notes on pages 14 to 31 are an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2010

1 GENERAL INFORMATION

Country of incorporation

The Company was incorporated and domiciled in Cyprus as a limited liability company in accordance with the provisions of the Companies Law, Cap. 113. Its registered office is at 20 Omirou Street, Agios Nicolaos, Limassol, Cyprus.

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

Approval of the financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 1 April 2011.

Global Depositary Receipts

Global Depositary Receipts each representing one ordinary share of the Company are listed on the London Stock Exchange International Main Market.

Principal activities

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

Consolidated financial statements

The Company also prepared consolidated financial statements; these financial statements should be read in conjunction with the consolidated financial statements which are available at the Company's website at www.globaltrans.com.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The Company has prepared these parent's separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

The Company has also prepared consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113 for the Company and its subsidiaries (the Group). The consolidated financial statements can be obtained from the Company's website at www.globaltrans.com.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2010 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

Notes to the financial statements continued

New standards, interpretations and amendments to published standards

a) The Company has adopted the following new standards, amendments and interpretations as of 1 January 2010:

- The Company has early adopted IAS 24, "Related Party Disclosures" (Amendments) which was issued in November 2009. IAS 24 was revised by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The adoption of the revised IAS 24 did not have an impact on these financial statements.
- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.
- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The adoption of IAS 27 Revised did not have an impact on the parent company financial statements.
- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have an impact on these financial statements.
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on these financial statements.
- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have an impact on these financial statements.
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have an impact on these financial statements.
- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these financial statements.
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are

effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have an impact on these financial statements.

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

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

- IFRS 9, "Financial Instruments Part 1: Classification and Measurement."* (effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company which is subject to EU endorsement. The expected impact is still being assessed in detail by management and the impact is not yet known nor can it be reasonably estimated.

c) Standards, amendments and interpretations that are not relevant and not yet effective and have not been early adopted by the Company

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The amendment is not expected to have an impact on the Company's financial statements.
- IFRIC14 (Amendments), "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after 1 January 2011). The amendments will not have any impact on the Company's financial statements.
- Classification of Rights Issues – Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company does not expect the amendments to have an impact on its financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow

Notes to the financial statements continued

previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company does not expect the amendments to have an impact on its financial statements.

- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company does not expect the amendments to have an impact on its financial statements.
- Disclosures—Transfers of Financial Assets – Amendments to IFRS 7* (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have an impact on the Company's financial statements.
- Deferred tax on investment property measured at fair value –Amendments to IAS12* (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment adds another exemption to the principles in IAS12, the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties. The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (eg. buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because land can only be recovered through sale. The amendments also incorporate SIC 21 "Income taxes – recovery of revalued non-depreciable assets" into IAS12, although this guidance will not be applied to investment property measured at fair value. The SIC 21 guidance has been included because it is applied by analogy in a number of transactions. The amendment is not expected to have an impact on the Company's financial statements.
- Exemption from severe hyperinflation and removal of fixed dates – Amendments to IFRS 1* (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRSs. When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the exemption allows an entity to elect to measure certain assets and liabilities at fair value and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The amendment is not expected to have an impact on the Company's financial statements.

Revenue recognition

Revenues earned by the Company are recognised on the following basis:

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

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

Foreign currency translation

a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. However, the financial statements are presented in United States Dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements. The results and financial position of the Company are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expense items at the average monthly rate, which approximates the exchange rate existing at the date of transactions; and,
- share capital, share premium and all other reserves are translated using the historic rate.

All exchange differences resulting from the above translation are recognised in other comprehensive income and are included in translation reserve in equity.

b) Transactions and balances

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

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

Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities when there is an intention to settle the balances on a net basis.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved and are no longer at the discretion of the Company. More specifically, interim dividends are recognised when approved by the Board of directors whereas in case of final dividends, these are recognised at the time when they are approved by the Company's shareholders.

Property, plant and equipment

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

Notes to the financial statements continued

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

	Number of years
Motor vehicles	3-5

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

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

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

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

Investments in subsidiary undertakings
Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements.

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Financial assets
The Company classifies its financial assets as loans and receivables. Management determines the classification of financial assets at initial recognition.

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

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

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

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

Share capital
Ordinary shares are classified as equity.

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

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

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

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

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

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

Borrowings

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

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

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

Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Fair values of financial guarantees in relation to obligations of subsidiaries, where such guarantees are provided for no compensation, are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the Company.

Trade and other payables

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

Cash and cash equivalents

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

Transactions with equity owners/subsidiaries

The Company enters into transactions with its shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non-equity holders, or subsidiaries, are recognised through the income statement in accordance with IAS 39, Financial Instruments Recognition and Measurement.

3 FINANCIAL RISK MANAGEMENT

Financial risk factors

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

Market risk

a) Foreign exchange risk

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

Notes to the financial statements continued

From September 2008 until May 2009 the Russian Rouble has weakened against the US Dollar, which has resulted in a positive effect for the Company by increasing the value of its US Dollar denominated assets when converted to the functional currency. From May 2009 onwards the Russian Rouble stabilised at the level approximating that at the end of 2008. During 2010 the Russian Rouble was relatively stable against the US Dollar. There is no certainty that this trend will continue and the Russian Rouble may appreciate in value against the US Dollar in the future, leading to the Company realizing a foreign exchange loss on its US Dollar denominated assets. The Company is therefore exposed to the effects of currency fluctuations between the US Dollar and the Russian Rouble.

Carrying amounts of monetary assets and liabilities denominated in US Dollars as at 31 December 2010 and 31 December 2009 are as follows:

	2010 US$'000	2009 US$'000
Assets	153,978	165,035
Liabilities	4	8,735

Had US Dollar exchange rate strengthened/weakened by 10% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2010 would have decreased/increased by US$15,397 thousand (2009: 10% change, effect US$15,630 thousand). This is mainly due to foreign exchange gains and losses arising upon restatement of accounts receivable and cash and cash equivalents denominated in US Dollars.

The Company's current policy is not to hedge this foreign exchange risk.

b) Cash flow and fair value interest rate risk

All of the Company's interest bearing financial instruments are at fixed interest rates. As a result, the Company is exposed to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2010 and 31 December 2009 would not have any impact on the Company's post tax profit or equity.

c) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), and cash and cash equivalents (Note 18).

The majority of loans and other receivables are balances with related parties.

Majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These enables the Company to reduce its credit risk significantly.

The carrying amount of accounts receivable represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

As of 31 December 2010 and 31 December 2009 none of the accounts receivable or cash and cash equivalents were past due or impaired.

d) Liquidity risk

As at 31 December 2010, the Company has a net working capital surplus of US$87,770 thousand (2009: US$97,097 thousand).

Management believes that the Company will be able to meet its obligations as they fall due.

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

The table below summarizes the analysis of financial liabilities of the Company by maturity as of 31 December 2010 and 31 December 2009. The amounts in the table are contractual undiscounted cash flows. Trade and other payables balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one month US$'000	Between one month and three months US$'000	Between three and six months US$'000	Less than one year US$'000	Total US$'000
As of 31 December 2010					
Trade and other payables[1]	37	201	–	–	238
Financial guarantee contracts[2]	261,755	40,199	53,219	15,609	370,782
	261,792	40,400	53,219	15,609	371,020
As of 31 December 2009					
Trade and other payables[1]	1,491	330	7,964	–	9,785
Financial guarantee contracts[2]	9,861	35,225	–	15,729	60,815
	11,352	35,555	7,964	15,729	70,600

[1]Trade and other payables exclude statutory liabilities as the analysis is provided for financial liabilities only

[2]The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time it may be called.

e) Capital risk management

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

Defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalization ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid, or sell assets in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

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

As at 31 December 2010 and 31 December 2009 the Company's borrowings amounted to US$nil.

f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) Critical accounting estimates

i) Fair value of guarantees issued

Management estimated the fair value of the free of charge guarantees issued by the Company in 2010 to secure the liabilities of its subsidiaries based the best estimate of expenditure required to settle the obligation.

As a result the fair value of guarantee issued to secure the obligations of the subsidiary of the Company in relation to a non-convertible bond issue was calculated at US$4,511 thousand on initial recognition and was recognised as cost of investment of the Company in that subsidiary.

The fair value of this guarantee was estimated using a probability adjusted discounted cash flow analysis, using probability of default as implied by the market price of the bonds and loss given default as estimated by considering the distressed value of net assets of the issuer of the bonds which were not pledged at the time of the issue of the bonds. If the probability of default was higher by 0,5% and the distressed value of the unpledged net asset of the issuer were lower by 10%, the fair value of the financial guarantee on initial recognition would be higher by US$1,706 thousand.

Fair values of the financial guarantees issued by the Company for the obligations of its subsidiaries in accordance with loan agreements with financial institutions where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of

Notes to the financial statements continued

such pledge exceeds the amount of the obligation of the respective subsidiary have been estimated at US$nil value since in case of default the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

b) Critical judgements in the application of the Company's accounting policies

i) Transactions with equity owners/subsidiaries

The Company enters into transactions with its shareholders and subsidiaries. When consistent with the nature of the transaction, the Company's accounting policy is to recognise (a) any gains or losses with equity holders and other entities which are under the control of the ultimate shareholder, directly through equity and consider these transactions as the receipt of additional capital contribution or the payment of dividends; and (b) any losses with subsidiaries as cost of investment in subsidiaries. Similar transactions with non-equity holders, or subsidiaries, are recognised through the income statement in accordance with IAS 39, Financial Instruments Recognition and Measurement. The Company believes that this policy provides a fair representation of the Company's activities.

Fair values of financial guarantees in relation to obligations of subsidiaries as determined on initial recognition were recognised as part of the cost of the investment in respective subsidiaries.

5 REVENUE

	2010 US$'000	2009 US$'000
Interest on loans to related parties (Note 21)	6,563	4,283
Dividend income	58,214	–
Total	64,777	4,283

6 OTHER GAINS/(LOSSES) – NET

	2010 US$'000	2009 US$'000
Net foreign exchange transaction gains (on non- financing activities) (Note 11)	67	2
Amortisation of financial guarantees	615	–
Fair value losses on financial guarantees issued	–	(395)
Other gains/(losses) – net	682	(393)

7 EXPENSES BY NATURE

	2010 US$'000	2009 US$'000
Auditors' remuneration	364	387
Auditors' remuneration – underprovision of prior year	49	61
Advertising and marketing expenses	55	94
Office rent	60	60
Depreciation of property, plant and equipment (Note 13)	13	6
Employee benefit expense (Note 8)	252	206
Legal, consulting and other professional services	847	4,481
Bank charges	25	23
Non-executive directors' fees (Note 21)	226	245
Travel expenses	316	117
Stock exchange and financial regulator fees	204	28
Other expenses	412	110
Total selling and marketing costs and administrative expenses	2,823	5,818

Legal, consulting and other professional services expenses were higher in 2009 compared to 2010 due to the substantial expenditure related to the secondary public offering of Global Depositary Receipts of the Company in December 2009.

8 EMPLOYEE BENEFIT EXPENSE

	2010 US$'000	2009 US$'000
Wages and salaries	243	201
Social security costs	9	5
Total employee benefit expense	252	206

9 FINANCE COSTS – NET

	2010 US$'000	2009 US$'000
Finance income:		
Interest on bank balances	3	31
Interest on bank deposits	25	–
Total finance income	28	31
Finance costs:		
Interest expense on payables to related parties (Note 21)	(705)	(4,700)
Net foreign exchange transaction (losses)/gains on financing activities (Note 11)	(58)	1,695
Total finance costs	(763)	(3,005)
Total finance costs – net	(735)	(2,974)

10 INCOME TAX EXPENSE

	2010 US$'000	2009 US$'000
Current tax:		
Withholding tax	1,860	–
Corporation tax	581	–
Special contribution for defence	3	–
Total tax expense	2,444	–

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

	2010 US$'000	2009 US$'000
Profit before tax	61,900	(4,902)
Tax calculated at the applicable tax rate of 10%	6,190	(491)
Tax effect of expenses not deductible for tax purposes	348	970
Tax effect of allowances and income not subject to tax	(5,923)	(178)
Foreign withholding tax	1,860	–
Tax effect of utilisation of previously unrecognised tax losses	(34)	(301)
Special defence contribution	3	–
Tax charge	2,444	–

The Company is subject to corporation tax on taxable profits at the rate of 10%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only be subject to defence contribution at the rate of 10%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

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

The Company did not recognise deferred income tax assets of US$nil as at 31 December 2010 (2009: US$34 thousand) in respect of losses amounting to US$nil (2009: US$340 thousand) that can be carried forward against future taxable income.

11 NET FOREIGN EXCHANGE GAINS

	2010 US$'000	2009 US$'000
Finance (costs)/income (Note 9)	(58)	1,695
Other gains (Note 6)	67	2
Total foreign exchange gains	9	1,697

12 DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2010.

On 3 May 2010, the Company in its general meeting approved the payment of a dividend in respect of the year ended 31 December 2008 of 15.177 US cents per ordinary share amounting to a total dividend of US$24,000,230. The dividend was paid on 4 May 2010.

At the Annual General Meeting which will take place in May 2011, a final dividend in respect of the profit for the year ended 31 December 2010 of 37 US cents per share amounting to a total dividend of US$58,510,147 is to be proposed. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders› equity as an appropriation of retained earnings in the year ending 31 December 2011.

Notes to the financial statements continued

13 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles US$'000	Total US$'000
At 1 January 2009		
Cost	13	13
Accumulated depreciation	(2)	(2)
Net book amount	11	11
Year ended 31 December 2009		
Additions	44	44
Depreciation charge	(6)	(6)
Closing net book amount	49	49
At 31 December 2009 / 1 January 2010		
Cost	57	57
Accumulated depreciation	(8)	(8)
Net book amount	49	49
Year ended 31 December 2010		
Depreciation charge	(13)	(13)
Closing net book amount	36	36
At 31 December 2010		
Cost	57	57
Accumulated depreciation	(21)	(21)
Net book amount	36	36

14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2010 US$'000	2009 US$'000
At beginning of year	540,294	299,114
Capital contribution	1,275	–
Fair value of financial guarantees provided (Note 21)	4,511	
Additions	–	250,000
Currency translation differences	(4,122)	(8,820)
At end of year	541,958	540,294

Details of the direct and indirect investments in the subsidiary undertakings are as follows:

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2010	2009
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	100	100
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	100	100
Ingulana Holdings Ltd	Subsidiary	Cyprus	Intermediary holding company	55.56	55.56
Ultracare Holdings Limited** *(90% subsidiary of Ingulana Holdings Ltd)*	Subsidiary	Cyprus	Intermediary holding company	50	50
BaltTransServis, LLC** *(100% subsidiary of Ultracare Holdings Ltd)*	Subsidiary	Russia	Railway transportation	50	50
RemTransServis, OOO** *(90% subsidiary of BaltTransServis, LLC)*	Subsidiary	Russia	Repair and maintenance of rolling stock	49.5	–
Spacecom, AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	61	61
Skinest Veeremi, AS* (until 29 July 2010 a 100% subsidiary of Spacecom, AS)	Subsidiary	Estonia	Operating lease of rolling-stock	–	61
Hoover SIA *(100% subsidiary of Spacecom, AS)*	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	61	61
Ekolinja Oy *(100% subsidiary of Spacecom, AS)*	Subsidiary	Finland	Operating sub-lease of rolling stock	61	61
AS Spacecom Trans (formely AS Intopex Trans)	Subsidiary	Estonia	Operating lease of rolling-stock	65	65
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	100

*On 29 July 2010 Skinest Veeremi, AS merged with its sole shareholder Spacecom, AS.

**Although the Company holds less than 50% effective shareholding, such subsidiaries are controlled via a majority shareholding in Ingulana Holdings Limited which in turn holds controlling stakes in such subsidiaries.

In December 2009 the Company acquired a 55.56% shareholding in Ingulana Holdings Limited, a pure investment holding company holding an effective 90% shareholding in BaltTransServis, LLC, Russia. As at 31 December 2009 Ingulana Holdings Limited holds 90% share of Ultracare Holdings Limited, Cyprus who in turn holds 100% share in OOO BaltTransServis, Russia (Note 21).

15 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

31 December 2010	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Loans and other receivables[1]	154,030	154,030
Cash and cash equivalents	35,504	35,504
Total assets	189,534	189,534

	Financial liabilities measured at amortised cost US$'000	Other financial liabilities US$'000	Total US$'000
Financial liabilities as per balance sheet			
Payables and accrued expenses	238	–	238
Financial guarantees	–	4,298	4,298
Total liabilities	238	4,298	4,536

31 December 2009	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Loans and other receivables[1]	60,152	60,152
Cash and cash equivalents	104,887	104,887
Total assets	165,039	165,039

	Financial liabilities measured at amortised cost US$'000	Other financial liabilities US$'000	Total US$'000
Financial liabilities as per balance sheet			
Payables and accrued expenses	9,670	–	9,670
Financial guarantees	–	394	394
Total liabilities	9,670	394	10,064

[1]Loans and other receivables do not include taxes and prepayments.

16 CREDIT QUALITY OF FINANCIAL ASSETS

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit rating if available or to historical information about counterparty default rates:

	2010 US$'000	2009 US$'000
Counterparties without external credit rating		
Group 1	154,030	58,883
Group 2	–	1,269
	154,030	60,152

Cash at bank and short-term bank deposits Agency	Rating	2010 US$'000	2009 US$'000
Moody's*	Aa1	11,581	95,573
Moody's	Aa3	1	
Moody's	Aaa	2	
Moody's	A1	–	9,289
Moody's	Baa2	391	25
Moody's	A2	23,529	–
Total cash at bank and short-term bank deposits		35,504	104,887

*International rating agency Moody's Investors Service.

Group 1 – Related party loans and other receivables from related parties

Group 2 – Customers with more than one year of working history with the Company

Notes to the financial statements continued

17 LOANS AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Other receivables – third parties	–	1,269
Other receivables – related parties (Note 21)	35,535	–
Loans to related parties (Note 21)	116,370	53,700
Interest receivable from related parties (Note 21)	2,125	5,183
Prepayments – third parties	10	7
VAT and other taxes recoverable	–	25
Total loans and other receivables	154,040	60,184
Less non-current portion:		
Loans to related parties (Note 21)	100,370	53,700
Interest receivable from related parties (Note 21)	–	4,315
Total non-current portion	100,370	58,015
Current portion	53,670	2,169

The weighted average interest rate on loans receivable from related parties was 6.03% at 31 December 2010 (31 December 2007: 7%).

The fair values of current trade and other receivables approximate their carrying amounts.

The fair values of non-current loans and other receivables are as follows:

	2010 US$'000	2009 US$'000
Financial assets		
Loans to related parties	97,105	52,441
Interest receivable from related parties	–	5,082
Total financial assets	97,105	58,792

There are no impaired or past due assets within loans and other receivables. Trade and other receivables are impaired only when there is an indication that the counterparty is unable to repay the balance.

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

	2010 US$'000	2009 US$'000
US Dollars	118,495	60,152
Russian Roubles	35,535	–
Euro	10	32
Total financial assets	154,040	60,184

18 CASH AND CASH EQUIVALENTS

	2010 US$'000	2009 US$'000
Cash at bank	35,504	104,887
Total cash and cash equivalents	35,504	104,887

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

	2010 US$'000	2009 US$'000
Cash and cash equivalents	35,504	104,887

19 SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2009	116,959,064	11,696	279,145	380,841
Issue of shares	41,176,469	4,118	345,882	350,000
Incremental costs directly attributable to the issue of new shares	–	–	(3,800)	(3,800)
At 31 December 2009 / 1 January 2010/ 31 December 2010	158,135,533	15,814	621,227	727,041

As at 31 December 2010 and 31 December 2009 the total authorised number of ordinary shares is 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

Year ended 31 December 2009

On 23 November 2009, the Company has increased its authorized and issued share capital from 116,959,064 shares with a par value of US$0.10 per share to 233,918,128 shares with a par value of US$0.10 per share.

On 14 December 2009, the Company has issued 29,411,764 new ordinary shares to Transportation Investments Holding Limited (its Parent entity) as consideration for 55.56% share in Ingulana Holdings Limited, a Cypriot holding company, owning 90% share in OOO BaltTransServis, one of the leading private Russian railway transportation services operators, specialising in shipping oil products and oil for Russian oil majors and other customers.

Following the offering on 9 December 2009 of Global Depository Receipts, on 14 December 2009, the Company has issued 11,764,705 new ordinary shares out of the authorized share capital as fully paid at a price of US$8.50 (including a premium of US$8.40 per share). In the context of the offering, the existing shareholders have also sold 8,782,352 shares to the public.

The expenses directly attributable to the new shares issued amounting to US$3,800 thousand were capitalised against share premium.

20 PAYABLES AND ACCRUED EXPENSES

	2010 US$'000	2009 US$'000
Current		
Other payables	4,335	2,078
Accrued expenses	201	590
Payables to related parties (Note 21)	–	7,258
Total current trade and other payables	4,536	9,926
Non-current		
Other payables	–	138
Total non-current trade and other payables	–	138

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

21 RELATED PARTY TRANSACTIONS

The Company is controlled by Transportation Investments Holding Limited incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 14.5% (including the holding of GDRs of the Company) of the Company's shares. In addition to the above, Directors of the Company control 0.1% of ordinary shares of the Company in the form of GDRs. The remaining 35.3% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The ultimate controlling party of the Company is Mirbay International Inc, Bahamas.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form. Related parties may enter into transactions, which unrelated parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The following transactions were carried out with related parties:

a) Loans to related parties

	2010 US$'000	2009 US$'000
Loans to subsidiaries:		
At beginning of year	58,883	54,615
Loan advances	132,670	32,000
Interest charged	6,563	4,283
Loan repaid during the year	(70,000)	(32,000)
Interest repaid during the year	(9,622)	(15)
Net foreign exchange	–	–
At end of year	118,495	58,883
Consists of:		
Non-current portion	100,370	58,015
Current portion	18,125	868
At end of year	118,495	58,883

Notes to the financial statements continued

The balances at the year end carry a weighted average interest rate of 6.03% (2009: 7%) per annum and are payable by September 2017.

b) Dividend income from related parties

	2010 US$'000	2009 US$'000
Dividend income from related parties:		
Subsidiaries	58,214	–
Total	58,214	–

c) Year end balances with related parties

	2010 US$'000	2009 US$'000
Receivables from related parties:		
Subsidiaries	35,535	–
Total receivables from related parties (Note 17)	35,535	–
Receivables from related parties:		
Current	35,535	–
Non-current	–	–
Total receivables from related parties (Note 17)	35,535	–
Payables to related parties:		
Parent entity	–	7,258
Total payables to related parties (Note 20)	–	7,258
Payables to related parties:		
Current	–	7,258
Non-current	–	–
Total payables to related parties (Note 20)	–	7,258

The balance receivable from subsidiaries relates to the dividends declared as at 31 December 2010. Such dividends are payable by 30 June 2011.

Year ended 31 December 2009

The balance payable to the parent entity relates to the deferred consideration payable for 61% share in AS Spacecom and 65% share on AS Intopex Trans which were acquired in December 2008.

Starting from 1 June 2009 interest accrues on the outstanding amount at the rate of 15% per annum, interest accrued on each instalment is paid by the Company to the Parent entity simultaneously with the payment of the relevant instalment.

In February 2009 the Company entered into additional agreements to the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Intopex Trans with the Parent entity. Pursuant to those additional agreements the Company received the right to settle instalments ahead of schedule. These early repayments result in a gain of US$216 thousand for the Company.

In September 2009, the Company concluded an additional agreement with the Parent entity whereby the schedule of payments of consideration for the purchase from the Parent entity of 61% share in AS Spacecom and 65% share on AS Intopex Trans was amended. Pursuant to the amended payment schedule, in September 2009 the Company settled US$25 million which was due in 2010 plus interest accrued on that amount. In October 2009, the Company paid an instalment of US$7 million plus interest accrued thereon. According to the amended schedule, the remaining balance of US$7 million plus interest is payable by 1 May 2010. This early repayment resulted in a loss of US$194 thousand which has been recognised in finance costs.

d) Interest income and expenses

	2010 US$'000	2009 US$'000
Interest income:		
Subsidiaries	6,563	4,283
Total interest income	6,563	4,283
Interest expense:		
The parent	(348)	(2,274)
Other finance cost:		
The parent	(357)	(2,426)
Total interest expense	(705)	(4,700)

Other finance cost relates to the unwinding of discounting effect on the liability of the Company to the Parent for consideration payable for the acquisition of AS Spacecom and AS Intopex Trans in 2008 and losses arising on early settlement of this liability.

e) Directors’ remuneration

	2010 US$’000	2009 US$’000
Directors’ fees	226	245
Emoluments in their executive capacity	158	150
Total directors’ fees	384	395

f) Guarantees in favour of subsidiaries

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

	2010 US$’000	2009 US$’000
Subsidiaries	363,715	57,902
Total guarantees	363,715	57,902

During the year ended 31 December 2010 the Company has acted as the guarantor for the obligation of its subsidiary for the unsecured non-convertible bonds issue. The guarantee was provided free of charge and is valid for five years or until all obligations of the subsidiary in relation to the bond issue are fully settled. The guarantee was recognized at an estimated fair value of US$4,511 thousand and was included in the cost of investment of the Company in the subsidiary concerned (Note 14). The fair value of the guarantee is amortised through the income statement (2010: US$450 thousand). As at 31 December 2010 the unamortised balance of the guarantee is US$4,071 thousand and is included in other payables. The liability is measured at the higher of (a) the probability to incur the expenditure required to settle the obligation, and (b) the amount initially recognized less cumulative amortisation.

During the year ended 31 December 2010 the Company has acted as the guarantor for the obligations of its subsidiaries in accordance with loan agreements with financial institutions. Fair values of the financial guarantees where such obligations are also secured by a pledge of property, plant and equipment and the distressed sale value of such pledge exceeds the amount of the obligation of the respective subsidiary have been estimated at US$nil value since in case of default the Company will be able to recover its losses under the issued guarantees from respective subsidiaries in full.

g) Other transactions with related parties

Year ended 31 December 2009

In November 2009 the Company has entered into a contribution and subscription agreement with its Parent entity. The contribution and subscription agreement provided for the transfer to the Company by the Parent of an effective 55.56 per cent share in Ingulana Holdings Limited, a Cypriot holding company, owning effective 90 per cent economic interest and a majority controlling interest in OOO BaltTransServis (“BTS”) in exchange for 29,411,764 new ordinary shares issued by the Company with a total value of US$250 million.

The holding company that was formed for the purposes of the above transaction did not have any significant liabilities or assets other than its share of BTS. As a result of the contribution, the Company acquired a 50 per cent effective economic interest in BTS and controls it by virtue of its 55.56% share of the holding company. TIHL retained the balance of its share of the holding company, leaving it with an effective 40 per cent interest in BTS other than its interest held through the Company.

BTS is a leading private Russian railway transportation services operator, specialising in shipping oil products and oil for Russian oil majors and other oil companies active in the Russian downstream and upstream sector.

22 CONTINGENCIES

Operating environment of the Company

The Company’s subsidiaries mainly operate in the Russian Federation, Ukraine and Estonia.

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Estonia represents a well developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Company to obtain new borrowings.

Notes to the financial statements continued

Debtors and borrowers of the Company may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers and debtors may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that the information is available, management have properly reflected the revised estimates of expected future cash flows in the impairment assessments.

Management is unable to predict all developments in the economic environment which could have an impact on the Company's operations and consequently what effect, if any, they could have on the future financial position of the Company. Management believes it is taking all the necessary measures to support the sustainability and development of the Company's business in the current circumstances

23 EVENTS AFTER THE BALANCE SHEET DATE

During the period from January to March 2011, the Company has received payments of dividends accrued as at 31 December 2010 from its subsidiaries in a total amount of RUB1,083,007 thousand (US$35,535 thousand at 31 December 2010 exchange rates).

During the period from January to March 2011, the Company has received interim dividends from Ingulana Holdings Ltd in the total amount of US$11,365 thousand.

During the period from January to March 2011, the Company has provided long-term loan to its subsidiary under the existing loan agreement for a total amount of US$13,440 thousand.

In March 2011, the Company has amended the terms of one the existing loans provided to its subsidiary by extending the repayment date from 31 March 2011 to 29 December 2013. Such change of terms has not resulted in any gains or losses for the Company.

There were no other material events after the balance sheet date that which have a bearing on the understanding of these financial statements.

Independent Auditor's Report on pages 7 to 8.

Notes

Appendix 3: Key contacts and shareholders' information

Globaltrans Investment PLC

Legal Address:

Omirou 20, Agios Nikolaos,
CY-3095 Limassol, Cyprus

Postal Address:

City House, 3rd floor, 6 Karaiskakis Street
CY-3032 Limassol, Cyprus
Phone: +357 25 503 153
Fax: +357 25 503 155

Investor Relations

Priit Pedaja, Head of Investor Relations
Mikhail Perestyuk, Investor Relations Manager
Phone: +357 25 503 153
E-mail: irteam@globaltrans.com

Media Relations

Anna Vostrukhova, Head of Media Relations
Phone: +357 25 503 153
Email: media@globaltrans.com

Company secretary

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

Depositary bank

The Bank of New York Mellon
Investor Services, P.O. Box 11258,
Church Street Station,
New York, NY 10286-1258, USA

Phone for domestic callers: +1 888 BNY ADRS (1 888 269 2377)
Phone for international callers: +1 201 680 6825
E-mail: shrrelations@bnymellon.com
Website: www.bnymellon.com/shareowner

Stock Exchange

London Stock Exchange PLC
10 Paternoster Square, London EC4M 7LS, UK
Phone: +44 20 7797 1000
Website: www.londonstockexchange.com

Auditors

PricewaterhouseCoopers Limited
City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus
Phone: +357 25 555 000
Fax: +357 25 555 001

Get more online at www.globaltrans.com

You can find other useful information at our corporate website including latest news and presentations, events calendar, historical selection of financial and operational information, share price data and other information on Globaltrans and its performance.

We are committed to providing our shareholders with the most up-to-date information and increasing understanding of our business and industry.

On the move?

Why not visit our mobile site, and keep up-to-date with our latest information and share prices.

Our Subscription Centre

Enter your details to receive occasional email alerts from Globaltrans.
www.globaltrans.com/contact-us/subscription-centre/

Subscribe to our RSS feeds

Visit our website and click on the RSS button to subscribe to our news feeds.
www.globaltrans.com/rss-feeds/

Visit our download centre

Here you can find our most recently available presentations, reports, policies and statistics.
www.globaltrans.com/download-centre/

Designed and produced by www.wisetiger.co.uk. Printed by Sussex Litho.

www.globaltrans.com

© 2011 Globaltrans Investment PLC