Globaltrans

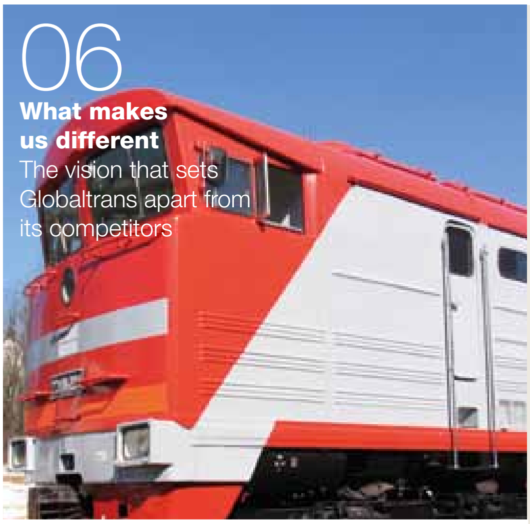
Russia's leading private freight rail group

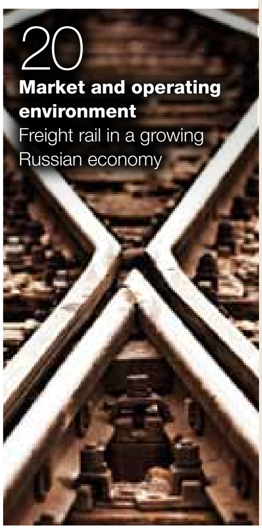
Innovation
Partnerships
Independence
Performance

Annual Report 2011

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

Contents





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 2011 are included in Appendix 1 "Directors' report and consolidated financial statements for the year ended 31 December 2011" 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 certain non-GAAP financial information (not recognised by EU IFRS or IFRS) as supplementary explanations of the Group's operating performance. Non-GAAP information and operational measures requiring additional explanation or defining are marked with initial capital letters and the explanations or definitions are provided on page 56 of this Annual Report.

Rounding adjustments have been made in calculating some of the financial and operational information included in this Annual Report. As a 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. The Group's market share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume of respective cargoes.

The Group has obtained certain statistical, market and pricing information that is presented in this Annual Report on such topics as the Russian freight rail transportation market, the Russian economy in general and related subjects from the following third-party sources: Rosstat; OJSC Russian Railways ("RZD"), Ministry of Economic Development of the Russian Federation and Federal Tariff Service of the Russian Federation ("FST").

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, and 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 this Annual Report.

For a detailed description of the presentation of financial and other information, please see page 58 of this Annual Report.

2011 highlights

Globaltrans delivered an outstanding performance in 2011, achieving a strong set of results.

The quality of our service offering and sophisticated operating capabilities enabled Globaltrans to take advantage of the strong market.

This translated into strong financial returns, while the Group continued to outperform the overall Russian freight rail transportation market and increased its market share.

The Group also continued to operate with a robust balance sheet, featuring minimal debt exposure and offering the opportunity to pursue further strong growth in 2012.

+14%

Freight Rail Turnover
was 110.6 billion tonnes-km, up 14% year on year

+30%

Adjusted Revenue
was USD 1,177.0* million, up 30% year on year

+29%

Adjusted EBITDA
was USD 505.1* million, up 29% year on year

43%*

Adjusted EBITDA Margin
held steady from 2010, at 43%*

+50%

Earnings per share[1]
were USD 1.68, up 50% year on year

0.5x*

Net Debt to Adjusted EBITDA ratio
at the end of 2011

History of steady growth and ...

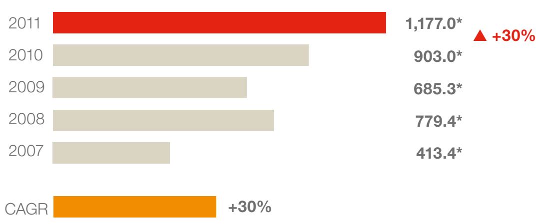
The past five years have seen steady growth with the Group's Adjusted Revenue and Adjusted EBITDA increasing at a CAGR of 30%.

In 2011 we achieved an Adjusted Revenue of USD 1,177.0* million, with a record Adjusted EBITDA of USD 505.1* million.

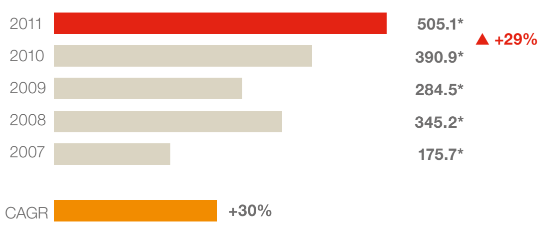
... capturing of market share

The Group's market share increased from 2.6% in 2007 to 5.6% in 2011.

Adjusted Revenue
(USD million)

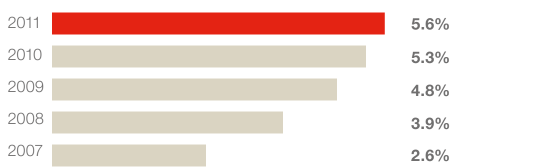


Adjusted EBITDA
(USD million)



Source: Globaltrans

Market Share
(of overall transportation volumes in Russia)



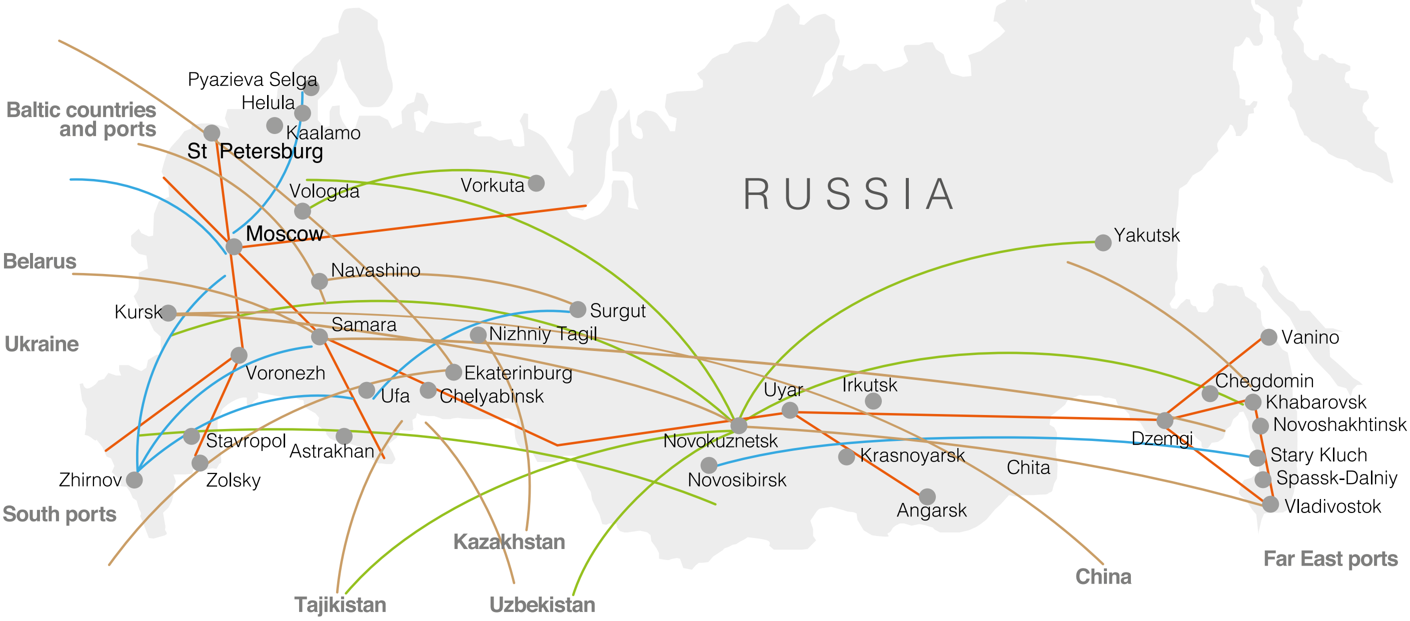
Source: Globaltrans; Rosstat

1. Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year

What we do

A freight rail business delivering reliable transportation solutions across the world's largest country

Globaltrans' key routes



Metallurgical routes (ferrous metal, scrap metal, ores)

Oil products and oil routes

Coal routes (thermal and coking)

Construction materials routes

Facts and figures

17m

Russia covers an area of 17 million square kilometres

85,200km

Russia has the third largest rail network in the world

1.2bn

Each year, around 1.2 billion tonnes of freight is carried on the Russian rail network

85%

Rail accounted for 85% of the overall Russian freight turnover in 2011, excluding pipeline traffic

Every day, Globaltrans carries about 200,000 tonnes of freight, including metallurgical cargoes, oil products and oil, coal and construction materials

A leading Russian private freight rail group, serving customers with a modern fleet and advanced information systems

Who we are

Globaltrans has rapidly grown to become one of Russia's leading private rail freight groups through a series of acquisitions and organic growth.

- Large and modern fleet
- Diversified cargo mix with focus on key industrial freight
- Efficient player with sophisticated operating capabilities and high-quality service
- Stable blue-chip customer base
- Listed on the London Stock Exchange since 2008 (ticker: GLTR)[2]

110.6bn

Freight Rail Turnover

Globaltrans had 110.6 billion tonnes-km in Freight Rail Turnover in 2011

5.6%

Market share

Globaltrans had 5.6% market share of the overall Russian freight rail volumes in 2011

47,580

Total Fleet

Globaltrans' Total Fleet included 47,580 units as of the end of 2011

$505.1m*

Adjusted EBITDA

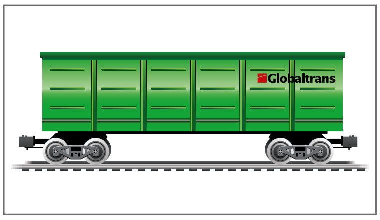
Globaltrans achieved USD 505.1* million of Adjusted EBITDA in 2011

+30%

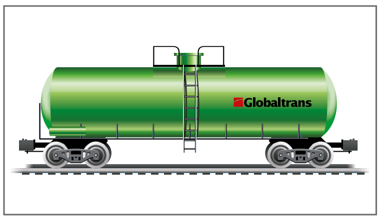
Adjusted EBITDA CAGR

Globaltrans' Adjusted EBITDA grew at a CAGR of 30% from 2007

Large and modern fleet



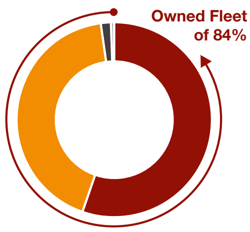
Universal gondola cars are used for transportation of various cargoes, including ferrous metals, scrap metal, ores, crushed stone, coal, timber, pipes and even containers.



Rail tank cars are used for rail transportation of oil products and oil.

47,580 units in Total Fleet at 2011 year end
(units)

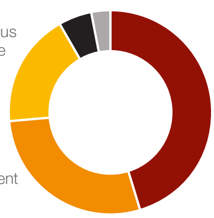
- **26,607 gondola cars**
  56% of the Total Fleet
- **20,427 rail tank cars**
  43% of the Total Fleet
- **490 other railcars**
  (inc. hopper and flat cars)
  1% of the Total Fleet
- **56 locomotives**
  0.1% of the Total Fleet



Source: Globaltrans

110.6 billion tonnes-km in Freight Rail Turnover in 2011
(billion tonnes-km)

- **45%**
  Metallurgical cargoes, inc. ferrous metals, scrap metal and iron ore
- **28%**
  Oil products and oil
- **18%**
  Thermal and coking coal
- 4%
  Construction materials, inc. cement
- **5%**
  Other cargoes



Source: Globaltrans

2. Global depositary receipts on ordinary shares are listed on the Main market of the London Stock Exchange

What makes us different

Globaltrans' pioneering approach to customer service sets us apart from our competitors

Advanced systems enable us to manage our fleet efficiently around the clock

We seek to develop partnerships with major customers in order to become an integrated part of their supply chains

1. Innovation:

Our logistics technology and expertise allow us to create greater efficiencies

5.6%

Market share
Globaltrans had a 5.6% share of the market for Russian freight rail transportation volumes in 2011

Every day our advanced IT platform and electronic railcar management systems enable us to manage and control railcars around the clock

Globaltrans has an established position as an innovator, leading the call for liberalisation and modernisation of the industry. 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 of rolling stock.

We have also made significant investments in the modernisation of our railcar fleet. Our business has grown by acquiring new railcars and through a series of acquisitions. As a result, we have one of the most modern fleets in the industry, with an average age of about seven years at the end of 2011.

Globaltrans became the first freight rail group in Russia to be listed on an international stock exchange when it listed its global depositary receipts on the Main Market of the London Stock Exchange in 2008.

2. Partnerships:

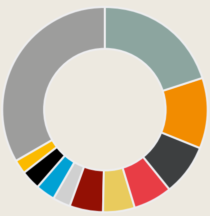
We work in an integrated way with our largest customers, creating long-term relationships

Our customers demand high levels of service and excellence of execution. Globaltrans has a reputation for delivering a fast, reliable service and effective transportation solutions. Our partners include many of Russia's blue-chip companies, including leading industrial groups. Globaltrans' customer base is diversified across cargoes and customers.

We seek to establish long-term partnerships with customers, based on mutual benefit and trust. In many cases, Globaltrans has become an integrated part of their logistics chains. We offer sophisticated operational capabilities and one of the largest and most modern railcar fleets available.

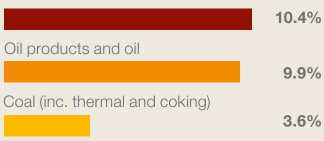
Net Revenue from Operation of Rolling Stock in 2011
by largest customer groups
(inc. customers, their affiliates and suppliers)

- 20% TNK-BP
- 11% MMK
- 8% Evraz
- 6% Metalloinvest
- 5% LUKOIL
- 5% Gazpromneft
- 3% Rosneft
- 3% Severstal
- 3% Ural Steel
- 2% Mechel
- 33% Other



Source: Globaltrans

Market share in 2011
of overall Russian freight rail transportation volumes, by respective freight type



Source: Globaltrans; Rosstat

Coal (including thermal and coking)
The segment was the largest in Russia's freight rail transportation industry, accounting for 25% of volumes in 2011

Metallurgical cargoes, including ferrous metals, scrap metal and ores, made up 18% of the overall Russian freight rail transportation volumes in 2011

What makes us different

Liberalisation of the rail market continues to offer opportunities to Globaltrans

+30%

Adjusted EBITDA CAGR
Globaltrans' Adjusted EBITDA grew at a CAGR of 30% from 2007

3. Independence:

We are in complete control of investment decisions and strategy so we can respond quickly to market conditions

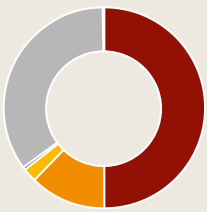
Globaltrans has grown to become one of the leading independent providers of freight rail transportation services to Russian industry. As the rail market liberalises and the freight rail industry consolidates, we see more opportunities to grow our market share as customers seek dedicated specialists like Globaltrans who can provide a one-stop shop for their rail transportation requirements.

Our independence is underpinned by our entrepreneurial heritage, which has enabled us to seize opportunities in a rapidly changing market and remains at the heart of the business. The founding shareholders are industry professionals who started the Company in the wake of Russian railway transportation market reform in the early 2000s. Our history is an example of entrepreneurial success in building a profitable and fast-growing business from scratch.

A leading independent provider of freight rail transportation services to Russian industry

Shareholder structure

- **50.1%** Transportation Investments Holding Limited and affiliates
- **12.23%** Envesta Investments Limited and affiliates[3]
- **2.3%** Treasury shares
- **0.06%** Other[4]
- **35.31%** Free-float



Source: Globaltrans; as of April 2012

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 its business under the brand name N-Trans. TIHL is ultimately controlled by a company which is beneficially owned by Konstantin Nikolaev, Nikita Mishin and Andrey Filatov.

Envesta Investments Limited is beneficially owned by two members of Globaltrans' management: Sergey Maltsev, Chief Executive Officer, member of the Board of Directors of Globaltrans, Executive Director and Alexander Eliseev, Chairman of the Board of Directors, Non-Executive Director.

The decrease in rail car prices in late 2011, coupled with continuing strong demand for our services, gave us the opportunity in early 2012 to significantly increase our Owned Fleet by about 25% through the acquisition of new rail cars

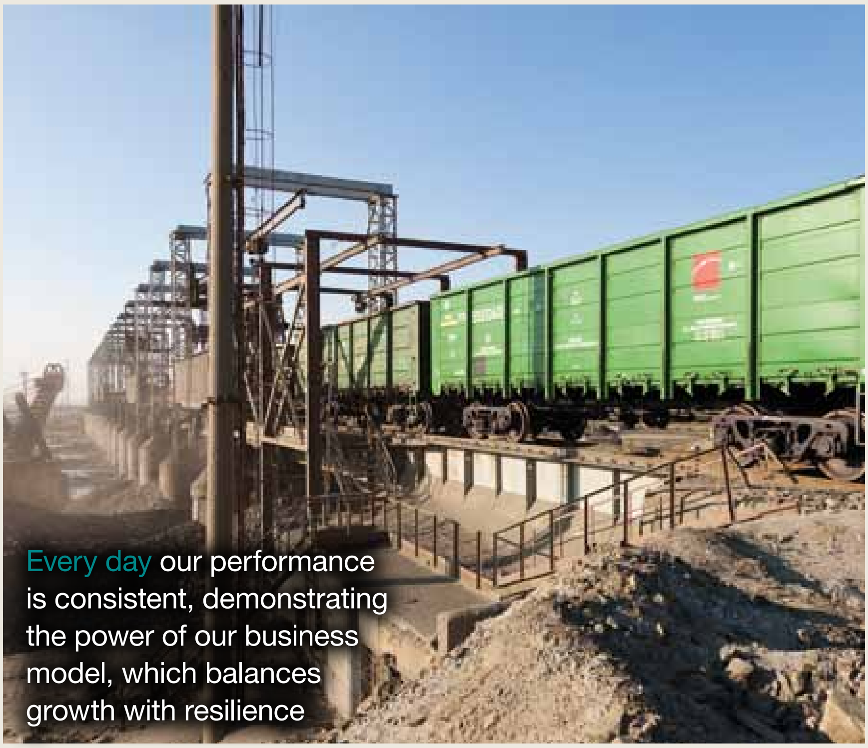
4. Performance:

Globaltrans has a proven track record of producing results through every stage of the economic cycle by proactively tailoring its assets and operations to economic conditions

Oil products and oil provide the Group with resilience throughout the market cycle

Globaltrans has strong credentials as a fast-growth company, capable of outperforming the market in different phases of the economic cycle. Our recent track record of strong performance demonstrates the efficacy of our strategy, rooted in entrepreneurship and a disciplined management style. In the past five years, Group's Freight Rail Turnover grew at a compound annual growth rate of 16%. Growth in other key areas of financial performance was even more pronounced, with Adjusted EBITDA rising at a compound annual growth rate of 30% over the same period.

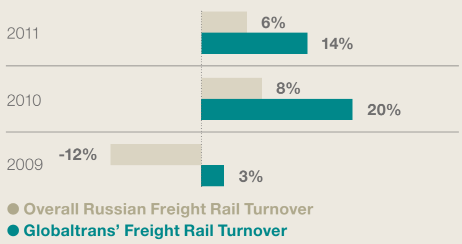
The Group's Total Fleet has practically doubled in the past five years through organic growth and selected strategic acquisitions. We enhanced our market share of overall freight rail transportation volumes in Russia from 2.6% in 2007 to 5.6% in 2011. Globaltrans managed to navigate the economic pressures of 2009, successfully demonstrating a resilient performance, illustrated by our increased Freight Rail Turnover and investments into new rolling stock.



Adjusted EBITDA
(USD millions)

Source: Globaltrans

Globaltrans' performance versus the overall Russian freight rail transportation market



Source: Rosstat; Globaltrans

3. Including GDRs owned by Envesta Investments Limited
4. Shares owned by the members of the Board of Directors of Globaltrans Investment PLC excluding beneficial owners of Envesta Investments Limited

Chairman's statement

We have made strides towards our goal of becoming Russia's leading freight rail operator

Industry overview

In contrast to much of the world economy, which faced fiscal imbalances, falling growth rates and austerity programmes, Russia's economy continued to grow in 2011, posting a year-on-year growth of 4.3%. The Russian Government's determination to support economic growth with a mix of Government spending and ongoing economic reform continued to provide a powerful stimulus to sectors of the economy, such as the railway industry, that play a central role in the nation's economic prosperity.

Rail is an industry that takes a long-term perspective and, as I pointed out last year, a modern, competitive rail industry is crucial for Russia's future economic development. The spin-off and sale by OJSC Russian Railways ("RZD") of its largest freight rail operating subsidiary was the defining event for the sector in 2011. This was another important milestone towards the goal we all share of creating a rail industry and network that is fit for purpose for Russia in the 21st century.

The Russian rail freight industry performed strongly in 2011, driven by strong domestic demand and sustained export demand for commodities. As a result, freight turnover carried on the rail system reached its highest levels since 2008. Globaltrans' performance within this context was very pleasing, outperforming the sector, expanding its market share and continuing to grow its fleet. This performance once again confirms our position as one of Russia's leading independent private freight rail transportation groups. We believe it also shows the ability of the Group to perform well across different stages of the economic cycle.

Outstanding financial results

The Group produced outstanding results for 2011, outperforming the growth in overall Russian Freight Rail Turnover more than two times, strengthening its market share and delivering very strong growth in both revenue and profits. The Group's Adjusted Revenue grew 30% year on year to USD 1,177.0* million, generating a record Adjusted EBITDA of USD 505.1* million, up 29% year on year. Earnings per share[5] rose 50% year on year to USD 1.68.

Strategic delivery

Our long-term vision to be Russia's leading freight rail transportation group and partner of choice for our customers continues to guide the future direction of the Group. Our strategy for creating shareholder value remains unchanged: a pure play in freight transportation; a focus on return-oriented expansion; a large, modern and well-balanced fleet; advanced logistics and fleet management; and strong financial discipline.

Our business model seeks to balance growth with resilience against market downturns. Our growth strategy is entrepreneurial, stressing opportunistic capital expenditure, targeted mergers and acquisitions, and sector liberalisation. This growth agenda is underpinned by a resilient business profile that focuses solely on rail freight transportation and is delivered by a fleet focusing on universal gondola cars, the segment with the high growth rates, and rail tank cars, which are exposed to a resilient oil products and oil sector.

Our operational and financial performance demonstrated the efficacy of our strategy, which is rooted in entrepreneurial flair – a hallmark of the Group – and a disciplined management style, in which the workforce is incentivised to improve the profitability. Our 2011 results also demonstrated the power of our business model to deliver across a range of market conditions. Our entrepreneurial flair was demonstrated by the management's

+30%

Adjusted Revenue

The Group's Adjusted Revenue grew by 30% year on year to USD 1,177.0* million in 2011

+29%

Adjusted EBITDA

We achieved an Adjusted EBITDA of USD 505.1* million in 2011, a 29% rise year on year

+50%

Earnings per share

There was an increase of 50% year on year in earnings per share[5] to USD 1.68 in 2011

Alexander Eliseev,
Chairman of the Board

Mr. Eliseev was co-founder of Globaltrans and has served as Chairman of the Board of Directors since 2008. He has held senior management positions, largely in the rail sector, for the past 15 years.

decision in 2011 to hold back from buying new railcars at the peak of the market. We carefully watch market conditions to take advantage of growth opportunities when they arise. The decrease in railcar prices in late 2011, coupled with continuing strong demand for our services, gave us the opportunity in early 2012 to significantly increase our Owned Fleet by c.25% through the acquisition of new railcars – much as we did in 2009. This new capacity will enable us to meet the additional transportation needs of our clients and will also substitute for part of our leased-in fleet, enhancing our strong market position. We will continue to monitor market changes and invest strategically in the growth of our business.

Over the past eight years, Globaltrans has grown to become one of the leading independent providers of freight rail transportation services to Russian industry. We deliver complex, integrated freight services that save our customers both time and money. As the rail market liberalises and the freight rail industry consolidates, we see more opportunities to grow our market share as customers seek dedicated specialists like Globaltrans who can provide a one-stop shop for their rail transportation requirements. In this respect, we believe that our independent status is a valuable asset, which we will continue to maintain.

While we remain focused on achieving organic growth, Globaltrans will nonetheless also consider strategic merger and acquisition opportunities of freight rail transportation companies that would fit well with the Group's strategy and add value for shareholders. In addition, Globaltrans intends to capitalise on its extensive experience in the operation of locomotives and expand further into this area of business once the relevant legal and regulatory framework is in place.

Corporate governance and responsibility

Globaltrans is committed to the highest standards of corporate governance and transparency. The Board recognises that good governance is a strategic asset that helps us to deliver consistent long-term value to our shareholders. By running the Company in an open way, we enable shareholders to understand how Globaltrans has been able to deliver consistently strong results.

As a leading private rail freight business, we also have social, ethical and environmental duties that we take extremely seriously. We continue to believe that corporate responsibility is an essential part of good governance and makes sound business sense, as well as being crucial to the appropriate management of risk within the Company.

Proposed dividend

The Board is recommending a dividend of USD 98.9 million (64 US cents per ordinary share[6]) for 2011 compared with USD 58.5 million (37 US cents per ordinary share) paid in 2010.

The Board's decision to increase the dividend reflects its confidence in both the strong fundamentals of the business, including strong cash flow and a robust balance sheet.

Our people

Finally, on behalf of the Board I would like to thank all of our colleagues for their outstanding contribution to this year's record performance. Without their ongoing loyalty and hard work throughout the year, we could not have achieved these excellent results.

Alexander Eliseev
Chairman of the Board

5. Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year
6. Global depositary receipts of the Company represent one ordinary share each

CEO's review

Our robust business model enables us to deliver growth throughout the business cycle

The market

In last year's report I wrote that the outlook for the Russian economy and for the rail industry in 2011 remained positive. I am pleased to say that this assessment proved to be correct. The Russian economy grew by 4.3% year on year, fuelled by strong consumer demand and continued growth in industrial output. This strong macro environment propelled Russian Freight Rail Turnover beyond its 2008 pre-crisis level as the industry reported 6% year-on-year growth.

Globaltrans produced a strong operating performance in 2011, delivering a 14% increase in Freight Rail Turnover, more than double the market's growth. This is the third consecutive year that the Group has outperformed the broader freight rail market in Russia, and over the same period the Group has delivered compound annual growth in Freight Rail Turnover of 12%. Our 2011 performance once again demonstrated our ability to deliver operational excellence and consistently outstanding results across a range of market conditions.

Overview of results

Globaltrans announced outstanding financial results for 2011. The Group's Adjusted Revenue increased by 30% to USD 1,177.0* million, with strong performances across our core business segments. The star contributor was the gondola cars business, which produced outstanding performance, increasing Net Revenue from Operation of Rolling Stock to USD 619.4* million, up 59% year on year. The rail tank car segment, produced a strong performance, growing Net Revenue from Operation of Rolling Stock by 10% year on year to USD 460.5* million. Our leasing business grew its contribution, delivering revenue of USD 76.6 million, an increase of 9% over the previous year.

We continued to contain our costs in 2011. As a result, our Adjusted EBITDA for 2011 was up 29% year on year to USD 505.1* million, with the Adjusted EBITDA Margin held steady at 43%*. Net profit improved by 40% year on year to USD 317.2 million and earnings per share[7] increased by 50% to USD 1.68 per share.

Operating review

Our operational performance was also strong throughout 2011. The Group showed progress across its key operational metrics: market share, Freight Rail Turnover and Average Price per Trip.

Our share of the total market continued its upward trend of recent years, increasing to 5.6% in 2011 (2010: 5.3%). Our share of metallurgical cargoes (including ferrous metals, scrap metal and ores) grew to 10.4% in 2011 (2010: 9.1%). This is by far our biggest segment, and our share of this market continues to grow strongly,

+14%

Freight Rail Turnover

The Group achieved 14% year on year increase in Freight Rail Turnover in 2011

41%

Empty Run Ratio

The Empty Run Ratio for gondola cars improved to 41% in 2011

0.5x*

Net Debt to Adjusted EBITDA ratio

Net Debt to Adjusted EBITDA ratio further improved to 0.5x* at the end of 2011

Sergey Maltsev,
Chief Executive Officer

A third-generation railwayman, Mr. Maltsev has spent more than 25 years working in the sector; he co-founded Globaltrans

having increased from 5.9% in 2008. We also had noticeable market share gains in the coal (including thermal and coking) and construction materials segments.

The strong growth in these three categories (metallurgical cargoes, coal and construction materials) drove our overall increase in Freight Rail Turnover, which I mentioned earlier, by 14% year on year. Prices for our services also increased and our Average Price per Trip rose by 22% in rouble terms year on year as a reflection of our quality service offering, favourable market environment and a 6% year-on-year increase in Average Distance of Loaded Trip. At the same time, the Group's Average Rolling Stock Operated leaped by 15% year on year to over 42,000 units. We also saw increases in Net Revenue from Operation of Rolling Stock from our key account customers. We have now become an essential long-term integrated service provider for many of our key customers, providing a reliable, high-quality service.

As in previous years, management worked hard to improve the Group's operational efficiency, in particular tackling our Empty Run Costs and improving Empty Run Ratio. We successfully contained increases in Empty Run Costs to 15% year on year, despite the 14% increase in the Group's Freight Rail Turnover and an 8% annual increase in

7. Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year

CEO's review

We have an excellent platform for further business growth in 2012: an innovative and highly motivated management team, a tested business model, a modern, well-balanced fleet, high-quality customer service, attractive market positions and strong finances.

regulated RZD tariffs for the traction of empty railcars. The Empty Run Ratio for gondola cars improved to 41% in 2011 (2010: 42%). Total Empty Runs remained unchanged at 62% compared to 2010.

Business expansion on track

Our investment policy remains to purchase new railcars only when such investment meets our strict return targets. If these criteria cannot be satisfied, we prefer to wait for a better opportunity in order to create value. In 2011, speculative activity created an elevated market for railcars, with prices moving to what we believed to be unsustainable levels. Faced with this, we took the decision to suspend our investment programme rather than risk overpaying. Consequently, we only took delivery of 1,764 railcars[8] in 2011. Such caution served us well and, as in 2009, we re-entered the market in the final months of 2011. By this time, prices had fallen from their previous peak levels and we were able to announce an investment programme to acquire up to 10,000 railcars by the end of 2012. Currently, I am pleased to report that we continue to deliver on our promises to shareholders, and since then the Group has contracted for 9,988 railcars by the date of this report, with 7,560 railcars already delivered and the remaining units to be delivered by the end of June 2012. We expect that these railcars will enable us to address the additional transportation needs of our customers, substitute part of our leased-in fleet and serve to further enhance our position as a leading independent private freight rail group in Russia. In addition to organic growth, Globaltrans may also consider non-organic growth opportunities that would fit the Group's strategy and be value-accretive.

Our disciplined approach to investing extends to our acquisition strategy. Hence we decided to withdraw from the auction process to privatise 75% minus two shares of OJSC Freight One, an RZD subsidiary. We concluded that the increase in borrowing levels required to fund the transaction was excessive at the time of the auction due to unfavourable global financial conditions.

The privatisation of Freight One is another major milestone in the deregulation of the Russian rail industry and, given the fact that over 70% of Russia's freight fleet is now in private hands, should help to accelerate deregulation and improve efficiency. While Freight One will continue to be a direct competitor of Globaltrans, we believe what sets us apart will continue to be a source of competitive advantage for Globaltrans: our reputation for innovation, our independent status, our partnership with our customers, our service culture, and our record of consistent performance. These key characteristics are difficult to replicate.

Balance sheet

Our balance sheet remains a source of strength. In 2011, our year-end debt position fell by 27% to USD 379.1 million (2010: USD 519.0 million). As a result, we ended the year with a Net Debt to

Adjusted EBITDA ratio of 0.5* times, half that of the previous year end. Our focus on financial discipline was such that Moody's, one of the leading credit rating agenices, assigned in 2011 a Ba3 corporate family rating with positive outlook to Globaltrans in recognition of our sustainable financial performance and strong financial profile.

Consequently, the Group retains substantial financial headroom to support our growth plans in 2012. In order to finance its fleet expansion programme, the Group attracted more than USD 700 million in the first months of 2012 through three-year Russian rouble-denominated bonds and various long-term credit facilities (predominantly denominated in Russian roubles with five-year maturity).

Outlook

Globaltrans has started the year well and current trading is in line with management expectations. We expect that the underlying drivers which are most important for Globaltrans will remain strong in 2012, enabling us to swiftly and profitably employ our new fleet. The Russian economy is predicted to continue to grow in the upcoming year. Demand for Russian raw materials, particularly in the emerging economies, is forecast to remain firm. Consequently, our view is that overall demand for freight rail services will remain solid. The evidence so far backs up this view; industry performance statistics show overall Russian Freight Rail Turnover was up 8% year on year in the first quarter of 2012. We have an excellent platform for further business growth in 2012: an innovative and highly motivated management team, a tested business model, a modern, well-balanced fleet, high-quality customer service, attractive market positions and a strong financial position. In an industry with an ageing asset base, the Group's determination to run a modern fleet marks it out as the provider of choice for many of Russia's largest blue-chip companies.

Ahead of anticipated changes to the industry, including potential consolidation and increased interest from large industrial companies in outsourcing transportation services to core operators, we remain positive about the prospects for further operational progress and financial performance in 2012.

Sergey Maltsev
CEO

-27%

Debt reduction

Total debt decreased by 27% year on year to USD 379.1 million as of the end of 2011

+22%

Average Price per Trip

Average Price per Trip increased by 22% year on year in rouble terms

8. 27 units of rolling stock (23 railcars and 4 locomotives) were disposed of over the reporting period

Strategy in action

Creating sustainable returns throughout the economic cycle

We believe that the outstanding set of financial and operational results we delivered in 2011 illustrates the robustness of our business model and the success of our strategic approach.

Our vision defines our destination: to be Russia's leading independent private freight rail transportation group and a partner of choice for customers. By focusing on delivering high-quality service and value to customers, by seeking to anticipate their requirements, and by providing them with solutions for their individual transport needs, we aim to win their confidence and encourage them to partner with us, recognising the value we bring.

We aim to deliver attractive long-term returns to shareholders via a strategy that seeks to deliver sustainable long-term growth through the economic cycle. Key elements of our strategy remain unchanged and, in recent years, we believe it has been effective in creating and sustaining value in different business and economic climates. Since it was set up in 2004, Globaltrans has grown rapidly, establishing itself as a leader in the private freight rail transportation sector, and at the forefront of innovation and change.

Balancing growth and resilience

We manage our business in a pragmatic and disciplined way. Our management philosophy encourages calculated risk-taking but within a disciplined operating framework. The key components of the business model are: a focus on freight rail transportation; a commitment to operating a well-balanced fleet; a policy of flexible expansion that seeks to protect returns; and a commitment to strong financial discipline. Our operating model is fundamental to our success. It facilitates growth, spreads risk and seeks to deliver resilience against market downturns. We will continue to refine and develop our business model to capture new growth opportunities and seek to adapt quickly to changes in our business environment.

Return-oriented growth

- Opportunistic organic growth
- Selected strategic M&A transactions
- Expansion into locomotive segment after further sector deregulation

Resilient business profile

- A well-balanced fleet split between universal gondola cars and rail tanks cars that is exposed to a resilient sector for the rail transportation of oil products and oil
- Freight rail transportation operations complemented by sustainable leasing business
- Prudent investment and financial discipline

Operational excellence

- Large and modern fleet
- Wide geography of operations
- Advanced logistics and fleet management
- Customer-centric approach and high-quality service offering
- Independence and reliability

Core principles

Our strategy is based on a core set of principles that define how we aim to deliver sustainable long-term returns.

Opportunistic growth
Expansion through a mix of organic growth and selective M&A

Operational excellence
Continuously improving what we do, every day

Innovation
Harnessing our expertise in logistics, technology and planning

Partnership
Developing long-term, win-win relationships with our customers

Independence
Enhancing our status as an independent, dedicated transportation specialist able to secure reliable and efficient freight rail transportation services for our customers

Our vision defines our destination: to be Russia's leading independent private freight rail transportation group and a partner of choice for customers.

Progress in 2011

The Group employs a number of performance indicators to monitor performance and measure progress against the overall strategy. In 2011, we continued to meet our strategic goals. In the table below we summarise our progress against our strategy components as illustrated by our key performance indicators.

STRATEGY COMPONENT	DESCRIPTION	DELIVERED IN 2011	PRIORITIES FOR 2012
Return-oriented expansion	• Opportunistic 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. • Disciplined approach to investments: carefully evaluate expansion opportunities to extract maximum value from acquired assets and achieve appropriate rates of return while maintaining a healthy balance sheet.	• In 2011 Globaltrans retained its disciplined approach to fleet expansion. Significant price inflation in the new railcar market meant the Group's strict investment hurdle rates could not be met; therefore it suspended its investment programme, which only resumed in the final months of 2011 when prices had fallen to more acceptable levels. • In December 2011, Globaltrans announced an investment programme with an acquisition target of 10,000 railcars by year end 2012. These railcars will be used to meet customer demand for additional transportation services and to part-replace leased-in railcars.	• Since December 2011 the Group has contracted for 9,988 railcars, of which 7,560 units are already delivered by the date of this report, and the remaining units are expected to be delivered by the end of June 2012. • While our focus on organic growth remains, the Group will continue to assess strategic M&A opportunities of freight rail transportation companies that would fit well with the Group's strategy and add value for shareholders.
Resilient business profile	• Balanced fleet: ensure fleet composition strikes the proper commercial balance between universal gondola cars and rail tank cars. • Focus service offering on freight rail transportation in order to produce maximum value from effective fleet management. • Employment of leased-in fleet to extract additional flexibility and capture market share.	• As at year end 2011, the share of gondola cars amounted to 56% (58% at 2010 year end) of the Group's Total Fleet while the share of rail tank cars amounted to 43% (41% at 2010 year end). • In 2011, about 93% of the Group's Adjusted Revenue was derived from the freight rail transportation business (92% in 2010). • The increased lease-in rates, along with the Group's intention to substitute a proportion of leased-in railcars with owned railcars, resulted in a 4,871-unit decrease of leased-in fleet to 7,670 units at the end of 2011. The Group's recent contracts for the purchase of 9,988 railcars are partly aimed at substituting the returned leased-in fleet.	• 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. • The Group intends to continue using leased-in fleet, primarily to benefit from the operational flexibility that it provides.
Operational excellence	• Seek to ensure sustainability of margins through effective margin management and cost control. • Emphasise route optimisation and fleet management in order to manage Empty Runs more efficiently and increase profitability.	• Adjusted EBITDA Margin remained stable at 43%* year on year. • Empty Run Costs were well managed in 2011 and grew only 15% year on year, well below the combined increase in the Group's business volumes (Freight Rail Turnover up 14%) and regulated tariff for the traction of empty railcars (up 8% from January 2011). • An additional 1,781 units of rolling stock of the Group's Owned Fleet were successfully transferred to mileage-based repairs. As at the 2011 year end, about 72% of the Group's Owned Fleet was being maintained on a mileage-based schedule.	• Continue focusing on improving Empty Runs. • Further expansion into CIS markets (Ukraine, Kazakhstan and Belarus). • Transfer more railcars to mileage-based repair and maintenance schedule.

Key members of the senior management team

Globaltrans' management team combines an of professional experience gained over many

The Globaltrans management team has the expertise to put the Company's strategy into action

Sergey Maltsev
Chief Executive Officer, member of the Board, Executive Director

Sergey Maltsev co-founded Globaltrans. He has served as CEO and member of the Board of Directors since 2008. Mr. Maltsev is a third generation railwayman and has spent more than 25 years working in the rail sector. He has been recognised for his contribution to the development of the rail industry by being made an 'Honored Railwayman of Russia'. Mr. Maltsev continues to play an active role in the Russian rail market reform and serves as Chairman of the presidium of the non-profit partnership 'Council of Railway Operators Market'.

Valery Shpakov
First Deputy Chief Executive Officer, CEO of New Forwarding Company

Valery Shpakov joined New Forwarding Company (a Globaltrans subsidiary) 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 made Mr. Shpakov the 'Honored Railwayman of Russia' in recognition of his contribution to the development of the rail transport sector.

Vladimir Prokofiev
Deputy Chief Executive Officer, CEO of BaltTransServis

Vladimir Prokofiev has served as CEO of BaltTransServis (a Globatrans subsidiary) since 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.

entrepreneurial approach with a high level years in the rail sector

Alexander Shenets
Chief Financial Officer

Alexander Shenets is the CFO of Globaltrans and has served in this capacity since the Group's establishment. Mr. Shenets has 11 years' experience in senior finance positions, mostly gained within the rail sector. He previously held positions at a number of transportation companies. He holds a degree in Applied Mathematics from Moscow State University. He also has a PhD in Philosophy from Bauman Moscow State University and an MBA from the Graduate School of Business Administration at Moscow State University.

Irina Alexandrova
Deputy Chief Executive Officer

Ms. Alexandrova, the Group's Deputy Chief Executive Officer, has served as the CEO of Sevtekhnotrans (a Globaltrans subsidiary) since September 2006. She has more than ten years of management experience in the railway industry. Prior to becoming CEO of Sevtekhnotrans, Ms. Alexandrova was Deputy Head of the railroad department of Severstaltrans from 1996 until 2006. She studied at the Sholokhov Moscow State Open Pedagogic University and completed courses on logistics and freight forwarding at the German Management Academy of Lower Saxony.

Roman Goncharov
Head of Treasury

Mr. Goncharov, Head of Treasury of the Group, has served as CFO of New Forwarding Company (a Globaltrans subsidiary) since 2007. He has more than 11 years of management experience. He studied at the Plekhanov Academy and at the Russian Economic Academy, where he obtained a diploma in Finance and Credit. Mr. Goncharov also has an MBA from the Moscow International School of Business. He previously worked as Finance Director of Transgarant and was Head of the Finance Department for Severstaltrans.

Vyacheslav Stanislavsky
Deputy Chief Executive Officer, Operations

Mr. Stanislavsky has more than 30 years of experience in the railway industry. He has been employed with New Forwarding Company (a subsidiary of Globaltrans), since March 2010 as Deputy General Director for Operations and Commerce, and since April 2011 as First Deputy General Director. In 2011, by a Resolution of the Russian Federation Transport Ministry, he was awarded a lapel badge "In Honour of 200th Anniversary of Waterway and Overland Transport Management". He graduated from Leningrad College for Military Transport.

Market and operating environment

The freight rail sector in Russia grew in 2011 to meet the demands of increasing industrial production

Directors' responsibility

Each of the Directors confirms that to the best of his or her knowledge the Management Report (section "Management 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

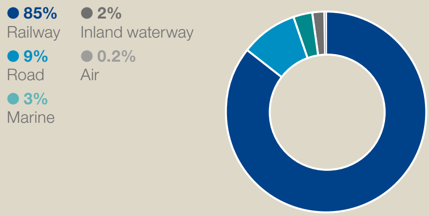
Economic strength

The freight rail sector is growing as Russian industrial output and global demand for Russian commodities increase.

Historical development in overall Russian Freight Rail Turnover
billion tonnes-km

Source: Rosstat

Russian freight turnover by means of transport
(exc. pipeline traffic), 2011



Source: Rosstat

Making the most of the market

2011 proved to be a year of expansion in the Russian rail freight market thanks to a number of benign factors, including strong industrial production underpinned by continued economic growth. The result was that overall Russian Freight Rail Turnover in 2011 surpassed that of the past few years, outperforming the relatively strong years of 2007 and 2008.

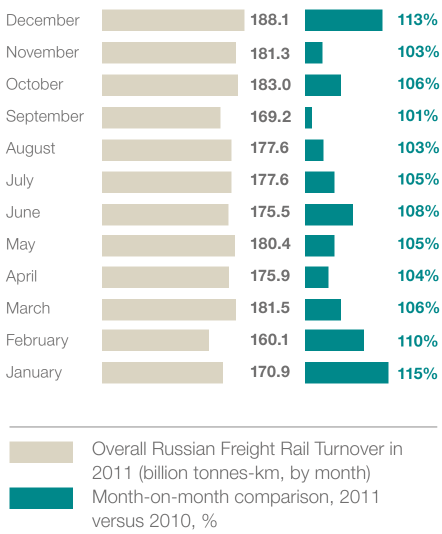
Last year's performance showed the industry, in which Globaltrans' market share rose year on year from 5.3% to 5.6%, to be on an upward trend. In 2011, Russia's GDP rose 4.3% year on year, supported by manufacturing, construction and agricultural industries, while industrial production was up by 4.7% compared to the previous year. Continuing growth in industrial production supported strong demand for freight rail transportation, with overall Russian Freight Rail Turnover (measured in tonnes-km) posting a 6% year-on-year increase. Overall Russian freight rail transportation volumes (measured in tonnes) increased by 3% year on year. This increase was driven primarily by construction materials (including cement), up by 9% year on year, metallurgical cargoes (including ferrous metals, scrap metal and ores), up by 3% year on year, and coal (including thermal and coking), up 3% year on year. In all these cargo segments Globaltrans increased its market share.

In 2011, rail again confirmed its dominant position as a freight carrier, accounting for 85% of the overall Russian freight turnover in 2011, excluding pipeline traffic. This is due to the vast transportation distances covered in the world's biggest country, a commodity export-oriented economy, an inadequate road and waterway infrastructure and extreme climate conditions.

Opportunities in this market are expected to increase following moves in 2011 by the Russian Government to further deregulate the industry. During last year, the deregulation of the business of rail freight operators was almost completed. The key milestone in this process was reached with the privatisation of 75% minus two shares in OJSC Freight One (a subsidiary of RZD) in October 2011. As a result, over 70% of the railcar fleet in Russia is now owned by private companies and operates on the basis of market pricing.

Last year, the Government also took a further important step towards introducing competition to the locomotive traction segment, by establishing an infrastructure tariff for private carriers operating their own locomotives. The next steps to be taken include the development of access regulations, as well as the development of a technical and operational framework. In addition, in 2011, a fresh set of governmental initiatives was discussed in order to support market consolidation. Currently, the market remains highly fragmented, with more than 1,800 owners of rolling stock.

Overall Russian Freight Rail Turnover
on a monthly basis, 2011 versus 2010



Source: Rosstat

Market and operating environment
continued

Overall Russian freight rail volumes
by type of freight, 2011

Source: Rosstat

+6%

Increase in overall Russian Freight Rail Turnover year on year in 2011

85%

Rail accounted for 85% of the overall Russian freight turnover in 2011 (excluding pipeline traffic)

Strong performance across all cargo segments

Metallurgical cargoes

Metallurgical cargoes (including ferrous metals, scrap metal and ores) accounted for 18% of overall Russian freight rail transportation volumes in 2011. For Globaltrans, this is the largest single cargo segment, contributing 45% of the Group's Freight Rail Turnover in 2011.

In 2011, overall Russian freight rail transportation volumes of metallurgical cargoes delivered a 3% year-on-year increase, with strong contributions from ores (up by 6% year on year) and ferrous metals (up by 1% year on year). The index for metallurgical production in Russia rose by 5.2% year on year in 2011, supported by robust domestic demand, primarily from the construction, engineering and energy sectors.

Oil products and oil

Oil products and oil accounted for 20% of overall Russian freight rail transportation volumes in 2011. This is the second largest cargo segment for Globaltrans, contributing 28% of the Group's Freight Rail Turnover in 2011. Rail is the key transport mode for refined products, including heavy fuel oil, while the majority of crude oil is transported by pipeline. The market for rail transportation of oil products and oil is the most stable within the cargo segments, as shown by the segment's resilient performance during the economic downturn of 2009.

The rail transportation volumes of oil products and oil remained relatively flat year on year, declining by 1% in 2011 compared to the previous year, which was driven by a switching of crude oil transportation from rail to the Skovorodino – Daqing pipeline towards China. The index for oil products production in Russia was up by 3.3% in 2011 compared to the previous year.

Coal

Coal (including thermal and coking) was the largest segment of Russia's freight rail transportation industry, amounting to 25% of overall Russian freight rail transportation

2011 proved to be a year of expansion in the Russian rail freight market thanks to a number of benign factors, including strong industrial production underpinned by continued economic growth.

volumes in 2011. Coal is the third largest cargo for Globaltrans, accounting for 18% of the Group's Freight Rail Turnover in 2011.

Overall, Russian freight rail transportation volumes of coal were up by 3% year on year. The increase in rail volumes was driven by robust demand from both domestic and international markets, with coal extraction in Russia increasing in 2011 by 3.8% year on year.

Construction materials

In 2011, construction materials (including cement) accounted for 16% of overall Russian freight rail transportation volumes. Due to the geographic dispersion of construction sites, this is one of the key cargoes, enabling optimised return routes and reducing Empty Runs. Construction materials accounted for 4% of Globaltrans' Freight Rail Turnover in 2011.

Construction materials was the last sector to recover from the decline caused by the economic downturn of 2009. In 2011, rail transportation volumes of construction materials increased 9% year on year.

The continued recovery in rail transportation of construction materials was led by an increase in construction activity, which rose by 5.1% year on year, supported by an increase in infrastructure expenditure and a recovery in the domestic construction sector. The production of cement increased 11% in 2011 compared to the previous year.

Historical performance of overall Russian freight rail transportation volumes
by type of freight, in million tonnes

Metallurgical cargoes
(inc. ferrous metals, scrap metal and ores)

Source: Rosstat

Oil products and oil

Source: Rosstat

Thermal and coking coal

Source: Rosstat

Construction materials
(inc. cement)

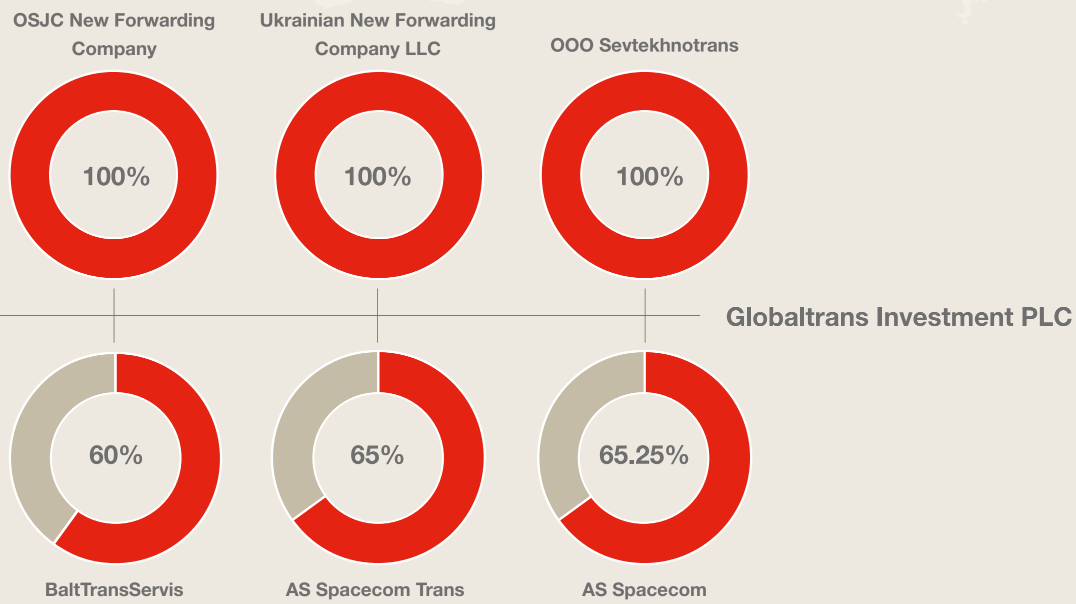
Source: Rosstat

Operational performance

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

Corporate structure

Globaltrans Investment PLC is a Cyprus-registered company that 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.



Source: Globaltrans; as of 31 December 2011

Continuing to outperform the Russian market

In 2011, Globaltrans enjoyed strong growth in its freight rail transportation operations, the core service offered by the Group, which contributed 93% of its Adjusted Revenue in 2011.

The Group delivered a 14% year-on-year increase in Freight Rail Turnover (measured in tonnes-km) compared to the 6% year-on-year growth for the overall Russian market. This marked a third successive strong annual performance, with the Group's Freight Rail Turnover outstripping figures for overall Russian Freight Rail Turnover, through a period of downturn as well as recovery. The result is that Globaltrans has increased its market share of Russia's rail freight volumes from 3.9% in 2008 to 5.6% in 2011.

Globaltrans believes this success is due to a combination of:

- **Large and modern fleet**
- **Sophisticated operational capabilities coupled with high-quality service**
- **Customer-centric approach and stable blue-chip customer base**

NOVAYA PEREVOZOCHNAYA	OJSC New Forwarding Company is Globaltrans' key operating company. It 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.
BaltTransServis	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.
Sevtekhnotrans Railway transportation of cargo	OOO Sevtekhnotrans is another Russian based subsidiary of Globaltrans. Sevtekhnotrans is mainly engaged in freight forwarding and rolling stock leasing services, mainly to the other companies within the Group.
SPACECOM SPACECOM TRANS AS	AS Spacecom and AS Spacecom Trans are Estonia registered companies engaged in the rail tank car leasing business in the CIS countries.
НОВА ПЕРЕВІЗНА	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 processing of freight cargoes for railcars returning from Ukrainian destinations.

Valery Shpakov
Deputy CEO,
CEO of New Forwarding Company

In 2011, the Group again produced very strong results. For the third year in a row we have grown faster than the market, proving our ability to outperform throughout the many phases of the economic cycle. In 2011, the Group's Freight Rail Turnover grew by 14% year on year, more than double the significant 6% industry increase in freight traffic across the Russian railway network. This allowed us to continue to increase our market share, which rose to 5.6% in 2011. Our ability to outperform the market was due to our strong competitive advantages, notably our large and balanced fleet, the quality and reliability of our service and our long-term relationships with key clients.

93%

Freight rail transportation contributed 93% of the Group's Adjusted Revenue in 2011

Operational performance
continued

45%

Metallurgical cargoes contributed 45% of Globaltrans' Freight Rail Turnover in 2011 (inc. ferrous metals, scrap metal and ores)

Strong growth across all operating sectors

Overall, the Group's Freight Rail Turnover increased year on year by 14% or 13.2 billion tonnes-km to 110.6 billion tonnes-km in 2011, supported by strong performances across all operating segments. The Group's transportation volume rose 9% over the same period to 69.6 million tonnes in 2011.

Metallurgical cargoes (including ferrous metals, scrap metal and ores), a key operating sector for Globaltrans, saw the Group's market share rise to 10.4% in 2011 compared to 9.1% the previous year. This segment is important to the Group, contributing 45% of its Freight Rail Turnover in 2011, and it is where five of the Group's ten largest customers are located. Within this segment, ferrous metals and scrap metal both improved market share, at over 15%, while iron ore saw a significant increase from 4.4% to 6.8%. As an indication of its national importance, it is worth noting that the metallurgical segment accounted for around one fifth of Russia's entire freight rail transportation volumes in 2011. Overall, the Group's operations in this segment grew by 7.7 billion tonnes-km (up 18% year on year) and, within that, iron ore traffic more than doubled, from 9.8 billion tonnes-km in 2010 to 21.4 billion tonnes-km in 2011.

On the back of increased volumes (up by 3% year on year), Freight Rail Turnover of ferrous metals demonstrated a 13% year-on-year decline to 25.5 billion tonnes-km in 2011, which was primarily due to increased domestic consumption with shorter distance routes. Scrap metal traffic remained relatively flat, posting a 1% year-on-year increase to 2.9 billion tonnes-km in 2011.

The Group delivered a further increase in market share in the transportation of construction materials (including cement), which increased to 2.5% in 2011 from 1.7% in 2010. Construction materials contributed 4% to the Group's Freight Rail Turnover in 2011. Construction materials Freight Rail Turnover increased year on year by 79% or 2.2 billion tonnes-km to 4.9 billion tonnes-km in 2011. Crushed stone was the key contributing cargo, with Freight Rail Turnover more than doubling, from 1.4 billion tonnes-km in 2010 to 2.9 billion tonnes-km in 2011. Cement and other construction materials traffic increased year on year by 20% and 55% respectively.

Another big increase in market share was delivered in the coal segment (including thermal and coking), which rose from 2.8% in 2010 to 3.6% in 2011. Coal contributed 18% to the Group's Freight Rail Turnover

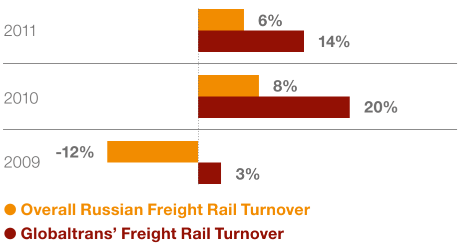
2011 performance highlights of Globaltrans' Freight Rail transportation business

	2010	2011	Change
Freight Rail Turnover, billion tonnes-km	97.4	110.6	14%
Transportation Volume, million tonnes	63.8	69.6	9%
Average Rolling Stock Operated, units	36,793	42,363	15%
Average Number of Loaded Trips per Railcar	29.3x	26.6x	-9%
Average Distance of Loaded Trips, km	1,504.0	1,596.6	6%
Average Price per Trip, USD	770.4	970.8	26%
Total Empty Run Ratio, %	62%	62%	–
Empty Run Ratio for gondola cars, %	42%	41%	–

Source: Globaltrans

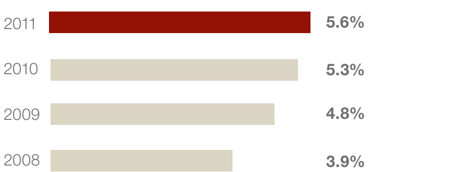
Operating performance
For the past three years, the growth in Globaltrans' Freight Rail Turnover has been significantly above the market average.

Globaltrans' performance versus the overall Russian freight rail transportation market, 2009-2011



Source: Rosstat; Globaltrans

Globaltrans' market share of overall freight rail transportation volumes in Russia



Source: Globaltrans; Rosstat

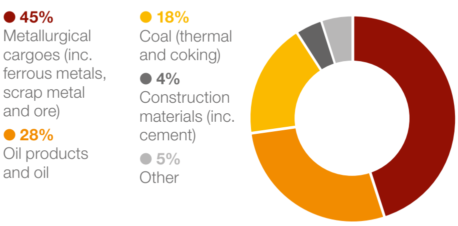
in 2011, with coal traffic up year on year by 10% or 1.7 billion tonnes-km to 19.4 billion tonnes-km in 2011, reflecting the increased usage of efficient block trains logistics (trains consisting of Group-operated railcars transporting a single commodity from one source to one destination), along with the robust market conditions for the commodity.

The Group's Freight Rail Turnover of oil products and oil increased year on year by 4% or 1.1 billion tonnes-km to 30.9 billion tonnes-km in 2011. In the oil products and oil sector, Globaltrans' market share slipped, from 11.2% in 2010 to 9.9% in 2011, on the back of lower transportation volumes (measured in tonnes). This was primarily the result of altered logistics of the Group, with longer-distance routes (Average Distance of Loaded Trip per rail tank car was up 25% year on year). Oil products and oil contributed 28% to the Group's Freight Rail Turnover in 2011.

Other cargoes contributed 5% to the Group's Freight Rail Turnover in 2011, demonstrating a 9% or 0.5 billion tonnes-km year-on-year increase to 5.6 billion tonnes-km in 2011.

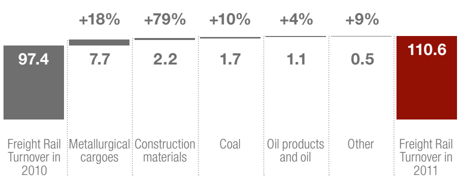
At the core of Globaltrans' ability to raise market share has been an increase in the number of railcars being operated. In 2011, the Group's Average Rolling Stock Operated increased by 15% over 2010 to 42,363 units compared to the previous year, driven primarily by a 21% year-on-year increase in average gondola cars operated and a 7% year-on-year increase in average rail tank cars operated.

Globaltrans' Freight Rail Turnover
by type of freight, 2011



Source: Globaltrans

Globaltrans' Freight Rail Turnover
2010-2011 (billion tonnes-km)



Source: Globaltrans

+14%

Freight Rail Turnover
In 2011 the Group's Freight Rail Turnover increased by 14% year on year

28%

Oil products and oil
contributed 28% of the Group's Freight Rail Turnover in 2011

Operational performance
continued

On the back of the strong reputation Globaltrans has built for reliability and innovation, partnerships with some of Russia's strongest corporates continued to evolve in 2011.

Average Number of Loaded Trips per Railcar declined by 9%, from 29.3 trips in 2010 to 26.6 trips in 2011, with Average Distance of Loaded Trip up by 6%. These operational metrics are interrelated and are better explained on a basis of main railcar types. While the Average Number of Loaded Trips per gondola car increased in 2011 by 4% over the previous year, the Average Distance of Loaded Trip per gondola car declined by 8% in the same period, as a result of more inland traffic. The Average Distance of Loaded Trips per rail tank car rose by 25% year on year, thus affecting the Average Number of Loaded Trips per rail tank car, which declined by 23% over the same period.

A preferred provider

On the back of the strong reputation Globaltrans has built for reliability and innovation, partnerships with some of Russia's strongest corporates continued to evolve in 2011. From its inception, the Group has developed a diversified and relatively stable customer base, represented by blue-chip companies in the metals and mining industry such as Evraz, Mechel, Metalloinvest, MMK, Severstal and Ural Steel. In oil products and oil, leading customers include Gazpromneft, LUKOIL, Rosneft and TNK-BP. In many cases, Globaltrans has become an essential integrated service provider for its customers. This is the result of developing a deep understanding of the customers' transportation needs and becoming part of their logistics chains. We believe that customers such as these value Globaltrans' reliability, responsiveness and sophisticated operating capabilities as key factors contributing to long-term customer relationships.

In 2011, the benefits of Globaltrans' long-term partnerships with key customers were reflected in Net Revenue from Operation of Rolling Stock increasing across practically all key customer groups. In 2011, key customers, their affiliates and suppliers contributed approximately 67% of the Group's Net Revenue from Operation of Rolling Stock, compared to 72% in the previous year. The remaining 33% consisted

The Group's fleet of locomotives consisted of 56 units at the end of 2011

Globaltrans' customer base includes companies in industries such as metals and mining, oil products and oil, and construction materials

67%

Key customers

In 2011 the Group's key customers (inc. their affliates and suppliers) contributed 67% of the Group's Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock
by largest customer groups (inc. customers, their affilates and suppliers)

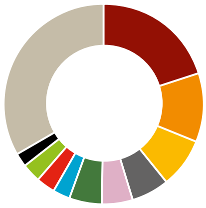
2010

23% TNK-BP
11% MMK
9% Evraz
10% LUKOIL
6% Gazpromneft
4% Rosneft
4% Severstal
3% Ural Steel
1% Metalloinvest
1% Mechel
28% Other (inc. small and medium enterprises)

Source: Globaltrans

2011

20% TNK-BP
11% MMK
8% Evraz
6% Metalloinvest
5% LUKOIL
5% Gazpromneft
3% Rosneft
3% Severstal
3% Ural Steel
2% Mechel
33% Other (inc. small and medium enterprises)



Source: Globaltrans

of other corporate customers, primarily small and medium enterprises.

High-quality service supported strong pricing

The robust market position and high-quality service offering allowed Globaltrans to benefit significantly from the favourable pricing environment. The Group's Average Price per Trip was up by 22% year on year in rouble terms (up 26% in US dollar terms), with the Average Distance of Loaded Trip increasing by 6% over the same period.

An intelligent approach to efficiency

The key to improving efficiency is reducing the number of Empty Runs made by the gondola car fleet, and it follows that efficient management of rolling stock is one of the drivers of profitability. With this in mind, sophisticated operating capabilities have enabled Globaltrans to maximise fleet utilisation and ensure customers receive a high-quality service. The Group's logistics centre is equipped to manage the fleet on a 24/7 basis, employing advanced information systems. The Group uses a number of proprietary and licensed software tools to dispatch and track rolling stock in real time, to identify the closest repair depots and to plan delivery routes for optimal profit generation. This has the effect of achieving higher fleet utilisation rates as well as improved service quality.

Converting empty trips to loaded runs drives revenue, while at the same time decreasing Empty Run Costs, which are the largest contributor to Operating Cash Costs for the Group. As early as the shipment planning stage, the opportunities to optimise Empty Runs are examined.

The management team tracks the efficiency of fleet utilisation, employing the Empty Run Ratio metric, calculated as the total of empty trips in kilometres by the relevant rolling stock type divided by total loaded trips in kilometres of that rolling stock type. Destination and route management is primarily applicable 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.

Efficient fleet management remained one of the key priorities for the Group in 2011. The Group's Total Empty Run Ratio, which aggregates all railcar types, remained stable year on year, at 62%. This

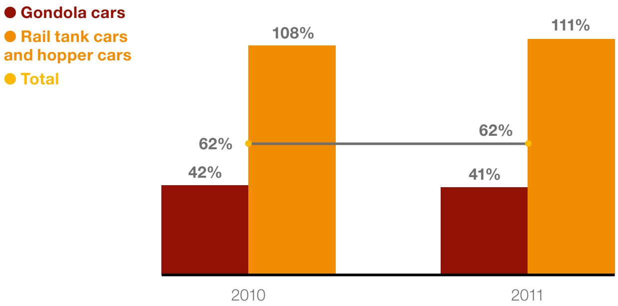
Alexander Shenets
Chief Financial Officer

Globaltrans is a growing company. We are confident of expanding our business and continue to adhere to our strategy of opportunistic growth. As we did in 2009, we took advantage of the combination of the strong demand for our services, as well as a positive downward trend in prices for railcars, and resumed our investment programme in late 2011. During the first months of 2012, we successfully completed this programme. We have currently contracted about 10,000 cars which comprise about 25% of Globaltrans' Owned Fleet, of which we have received 7,560 units, as of the date of this report, and the remainder are expected to be delivered before the end of June 2012.

Our strong operational performance, active pricing policy, and successful cost containment allowed us to show strong growth in all our key financial indicators in 2011.

Operational performance
continued

Globaltrans' Empty Run Ratio
(by type of railcars)



Source: Globaltrans

performance was driven by a combination of the following factors:

- The Empty Run Ratio for gondola cars improved from 42% in 2010 to 41% in 2011, supported by improved availability of inbound cargo (primarily construction materials).
- The Empty Run Ratio for rail tank and hopper cars increased from 108% in 2010 to 111% in 2011, primarily because of changes in logistics for the transportation of oil products and oil.

The other important operating metric that improved in 2011 is the Share of Empty Run Kilometres paid by Globaltrans, which demonstrates the share of empty run kilometres paid by the Group from the total amount of empty run kilometres incurred by the fleet operated. This metric improved from 82% in 2010 to 78% in 2011. It reflects the increased use of block train[9] logistics for transportation of coal and iron ore, in which customers generally pay for Empty Runs directly to RZD.

The value of leasing

Globaltrans delivered a stable performance in its railcar leasing business, the second major service offered by the Group, which contributed 7% of the Group's Adjusted Revenue in 2011. A decrease in the average number of railcars leased out over the period was compensated for by increased leased rates.

The majority of the Group's leasing business operations are concentrated in its Estonian subsidiaries, AS Spacecom and AS Spacecom Trans. The majority of the Group's leased-out fleet comprises rail tank cars. The primary markets for the Group's leasing business are Kazakhstan, Belarus and Russia.

Ensuring the best fleet is in place

Globaltrans' focus on servicing its blue-chip clients by providing them with a large, modern and balanced fleet has continued to be rewarded with substantial cargo volumes. The average age of the Group's Owned Fleet was 7.1 years at the end of 2011, making it the one of most modern in the Russian rail freight industry at a time when a substantial number of railcars in Russia are close to the end of their useful life. The Group's Total Fleet stood at 47,580 units at the end of 2011, with 84% or 39,910 units directly owned or leased in under finance leases. The remainder was leased in from third parties under operating lease arrangements. The leased-in fleet is being employed to take advantage of favourable market conditions and/or to test new routes and customers, with the aim of establishing a platform for expanding the Group's Owned Fleet.

A well-balanced fleet remains one of the cornerstones of Globaltrans' business model, enabling the Group to be simultaneously exposed to high-growth bulk freight transported in universal gondola cars and the relatively resilient market for oil products, transported in rail tank cars. At the end of 2011, universal gondola cars totaled 26,607 units or 56% of the Group's Total Fleet. Rail tank cars accounted for 20,427 units or 43% of the Group's Total Fleet at the end of 2011. The Group's fleet of rail tank cars included 2,483 steam jacket tanks, enabling faster loading/unloading during the winter months, as well as 270 LPG rail tanks.

The Group's fleet of locomotives consisted of 56 units at the end of 2011. These locomotives are employed primarily for

Globaltrans is a growing company. We are confident of expanding our business and continue to adhere to our strategy of opportunistic growth.

traction of block trains consisting of Group-operated railcars bound for one destination. The use of block trains improves delivery times and increases railcar turnover, as it avoids the need to couple and decouple individual railcars at rail yards. In addition, Globaltrans' fleet also included 370 hopper and 120 flat cars at the end of 2011.

In 2011, Globaltrans' Owned Fleet was up by 5% or 1,737 units[10] to 39,910 units at the end of 2011 compared to the end of the previous year, reflecting moderate levels of railcar purchases during most of 2011 as a result of an overheated market for new railcars.

Given the strong demand for the Group's services and the decrease in railcar prices, Globaltrans resumed its opportunistic investment programme during the last months of 2011. Since then, the Group has, in aggregate, contracted for the purchase of 9,988 railcars, with 7,560 units delivered by the date of this report. Deliveries of the remaining units are expected by the end of June 2012. These railcars will enable Globaltrans to address the needs of its clients for additional transportation services, as well as replacing part of the Group's leased-in fleet.

The increased lease-in rates, along with the Group's intention to replace a proportion of leased-in railcars with owned railcars, resulted in a 39% or 4,871 units decrease in leased-in fleet to 7,670 units at the end of 2011. The Group's recent contracts for the purchase of railcars are partly aimed at replacing the returned leased-in fleet. The Group intends to continue using a leased-in fleet, primarily to benefit from the operational flexibility this provides.

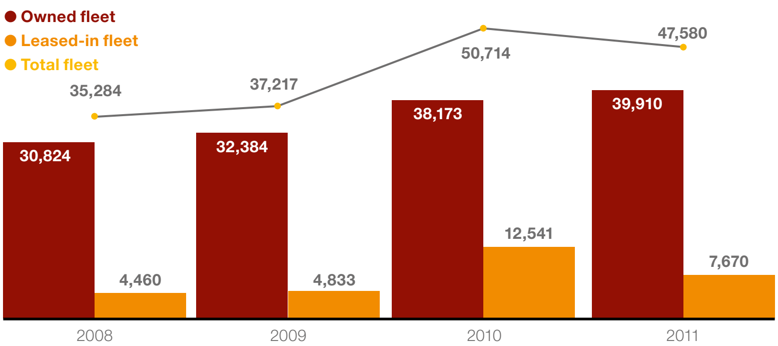
7.1 years

Average age of the Group's Owned Fleet as at the end of 2011

84%

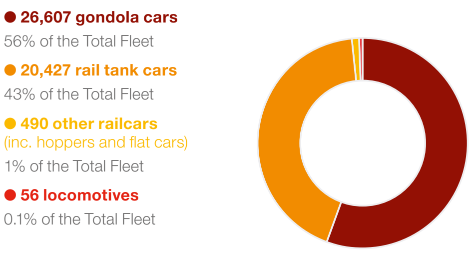
Owned Fleet accounted for 84% of the Group's Total Fleet as at the end of 2011

Historical development of Globaltrans' Total Fleet
(at period end)



Source: Globaltrans

Globaltrans' Total Fleet
(at end 2011)



Source: Globaltrans

9. A block train consists of Group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar turnover, as it avoids the need to couple and decouple individual rolling stock at rail yards
10. Representing a balance between 1,764 units delivered and 27 units disposed of in 2011

Financial review

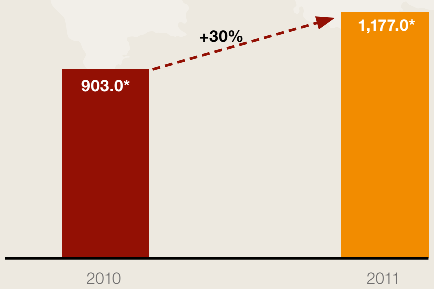
Increased business volumes, a better pricing environment and continued stringent control of operating costs enabled the Group to deliver an excellent set of financial results

Highlights

Our strong operational performance, active pricing policy, and successful cost containment allowed us to show strong growth in all our key financial indicators in 2011[11].

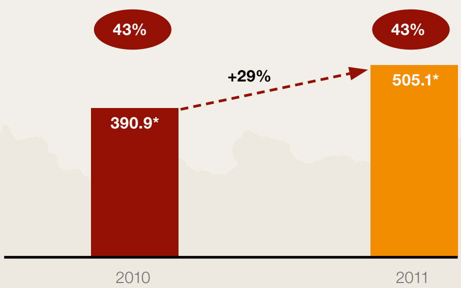
- Adjusted Revenue increased 30% year on year to USD 1,177.0* million in 2011 (2010: USD 903.0* million), supported by increased Freight Rail Turnover and robust pricing.
- EBITDA rose 31% year on year to USD 505.6* million. Adjusted EBITDA increased 29% year on year to USD 505.1* million (2010: USD 390.9* million).
- Adjusted EBITDA Margin was maintained at 43%*.
- Profit for the year increased 40% year on year to USD 317.2 million. Earnings per share[12] rose 50% year on year to USD 1.68 per share.
- The Group maintained a strong balance sheet and continued to reduce its debt, with the Group's Net Debt to Adjusted EBITDA ratio decreased to 0.5x* at the end of 2011, creating an excellent platform for further growth.

Adjusted Revenue (USD million)



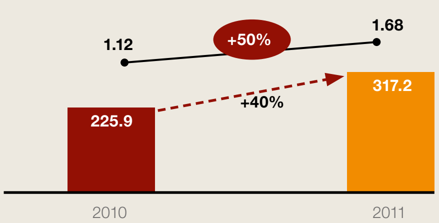
Source: Globaltrans

Adjusted EBITDA (USD million) and Adjusted EBITDA Margin (%)



Source: Globaltrans

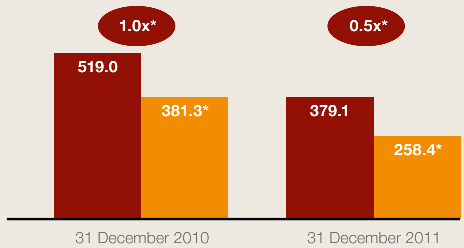
Profit for the year and Earnings per share



Source: Globaltrans

Profit for the year (USD million)
Earnings per share[12] (USD)

Total debt, Net Debt, Net Debt to Adjusted EBITDA ratio



Source: Globaltrans

Net Debt (USD million)
Total debt (USD million)

Results of operations

The following table sets forth the Group's key financial and operational information for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change %
IFRS financial information			
Revenue	1,382.7	**1,733.1**	25%
Including Total revenue – operator's services	1,309.7	**1,651.8**	26%
Including Total revenue – operating lease	70.5	**76.6**	9%
Total cost of sales, selling and marketing costs and administrative expenses	1,056.3	**1,304.2**	23%
Operating profit	329.4	**432.0**	31%
Finance costs – net	(45.9)	**(32.6)**	-29%
Profit for the year	225.9	**317.2**	40%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	1.12	**1.68**	50%
Total assets (at year end)	1,515.3	**1,467.8**	-3%
Total debt (at year end)	519.0	**379.1**	-27%
Cash and cash equivalents (at year end)	137.7	**120.8**	-12%

	2010 USD m	2011 USD m	Change %
Non-GAAP financial information			
Adjusted Revenue	903.0*	**1,177.0***	30%
Including Net Revenue from Operation of Rolling Stock	830.0*	**1,095.8***	32%
Total Operating Cash Costs	510.6*	**671.8***	32%
Including Empty Run Costs	203.4*	**233.8***	15%
Including Operating lease rentals – rolling stock	87.5	**132.6**	52%
Adjusted EBITDA	390.9*	**505.1***	29%
Adjusted EBITDA Margin (%)	43%*	**43%***	–
Net Debt (at year end)	381.3*	**258.4***	-32%
Net Debt to Adjusted EBITDA (at year end)	1.0x*	**0.5x***	–

11. The Group's financial performance in 2011 was affected by a 3.2% appreciation of the average exchange rate of the Russian rouble (Functional Currency of the Company and its Cyprus and Russian subsidiaries) against the US dollar (the Group's financial information presentation currency). The 2011 year end exchange rate of the Russian rouble against the US dollar weakened by 5.6% compared to the end of 2010
12. Basic and diluted earnings per share for profit attributable to the equity holders of the company during the year

Financial review
continued

The following table sets forth the principal components of the Group's consolidated income statement for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change USD m	Change %
Revenue	1,382.7	1,733.1	350.4	25%
Cost of sales	(981.4)	(1,210.8)	229.4	23%
Gross profit	401.2	522.2	121.0	30%
Selling and marketing costs	(2.7)	(3.1)	0.4	15%
Administrative expenses	(72.2)	(90.3)	18.1	25%
Other gains – net	3.0	3.1	0.1	3%
Operating profit	329.4	432.0	102.6	31%
Finance income	7.2	7.4	0.2	2%
Finance costs	(53.1)	(39.9)	(13.2)	-25%
Finance costs – net	(45.9)	(32.6)	(13.3)	-29%
Share of profit of associates	0.2	0.4	0.2	108%
Profit before income tax	283.7	399.8	116.1	41%
Income tax expense	(57.7)	(82.6)	24.9	43%
Profit for the year	**225.9**	**317.2**	**91.3**	**40%**
Attributable to:				
Equity holders of the Company	177.3	266.4	89.1	50%
Non-controlling interests	48.6	50.8	2.2	4%
	225.9	**317.2**	**91.3**	**40%**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	1.12	1.68	0.56	50%

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

The Group's revenue increased by 25% to USD 1,733.1 million in 2011 compared to USD 1,382.7 million in the previous year. The following table sets forth revenue, broken down by revenue-generating activity, for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change USD m	Change %
Railway transportation – operator's services (tariff borne by the Group)[13]	810.7	929.9	119.3	15%
Railway transportation – operator's services (tariff borne by the client)	499.1	721.9	222.8	45%
Railway transportation – freight forwarding	1.9	3.4	1.6	84%
Operating lease of rolling stock	70.5	76.6	6.0	9%
Other revenue	0.6	1.3	0.7	129%
Total revenue	**1,382.7**	**1,733.1**	**350.4**	**25%**

Adjusted Revenue

Adjusted Revenue was USD 1,177.0* million in 2011, an increase of 30% compared to USD 903.0* million in the previous year.

Adjusted Revenue is a non-GAAP financial measure describing the revenue adjusted for "pass-through" infrastructure and locomotive tariffs and is defined as "Total revenue" less "Infrastructure and locomotive tariffs: loaded trips". "Infrastructure and locomotive tariffs: loaded trips" is revenue resulting from tariffs that customers pay to the Group and the Group pays on to RZD, which are reflected in equal amounts in the Group's revenue and 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.

The following table sets forth Adjusted Revenue for the years ended 31 December 2011 and 2010 and its reconciliation to revenue.

	2010 USD m	2011 USD m	Change USD m	Change %
Revenue	1,382.7	1,733.1	350.4	25%
Minus				
Infrastructure and locomotive tariffs: loaded trips	479.7	556.0	76.4	16%
Adjusted Revenue	**903.0***	**1,177.0***	**274.0**	**30%**

The following table sets forth the breakdown of Adjusted Revenue for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change USD m	Change %
Net Revenue from Operation of Rolling Stock	830.0*	1,095.8*	265.7	32%
Operating lease of rolling stock	70.5	76.6	6.0	9%
Railway transportation – freight forwarding	1.9	3.4	1.6	84%
Other revenue	0.6	1.3	0.7	129%
Adjusted Revenue	**903.0***	**1,177.0***	**274.0**	**30%**

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock accounted for 93% of the Group's Adjusted Revenue in 2011. 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 – operator's services"[14] less "Infrastructure and locomotive tariffs: loaded trips".

The following table sets forth Net Revenue from Operation of Rolling Stock for the years ended 31 December 2011 and 2010, and its reconciliation to revenue from railway transportation – operator's services.

	2010 USD m	2011 USD m	Change USD m	Change %
Railway transportation – operator's services	1,309.7	1,651.8	342.1	26%
Minus				
Infrastructure and locomotive tariffs: loaded trips	479.7	556.0	76.4	16%
Net Revenue from Operation of Rolling Stock	**830.0***	**1,095.8***	**265.7**	**32%**

13. Includes "Infrastructure and locomotive tariffs: loaded trips" for the year ended 31 December 2011 amounting to USD 556.0 million (2010: USD 479.7 million)
14. Defined as the sum of the following IFRS line items: "Railway transportation – operator's services (tariff borne by the Group)" and "Railway transportation – operator's services (tariff borne by the client)"

Financial review
continued

In 2011 the Group's Net Revenue from Operation of Rolling Stock was USD 1,095.8* million, an increase of 32% compared to USD 830.0* million in the previous year. This increase was primarily driven by the following factors:

- Average Rolling Stock Operated increased 15% year on year to 42,363 units in 2011;
- Average Price per Trip increased 26% to USD 970.8 (in rouble terms up 22% to RUB 28,536) in 2011 compared to 2010;
- Average Number of Loaded Trips per Railcar declined 9% to 26.6 trips compared to 2010, primarily due to Average Distance of Loaded Trip increasing 6% year on year.

Revenue from operating lease of rolling stock

Revenue from operating lease of rolling stock, which accounted for 7% of the Group's Adjusted Revenue in 2011, grew to USD 76.6 million in 2011, representing an increase of 9% compared to the previous year.

The increase in lease rates was partially offset by a decrease in the average rolling stock leased over the period.

Cost of sales, selling and marketing costs and administrative expenses

In 2011, the Group's total cost of sales, selling and marketing costs and administrative expenses amounted to USD 1,304.2 million, an increase of 23% compared to the previous year.

The following table sets forth a breakdown of cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change USD m	Change %
Cost of sales	981.4	1,210.8	229.4	23%
Selling and marketing costs	2.7	3.1	0.4	15%
Administrative expenses	72.2	90.3	18.1	25%
Total cost of sales, selling and marketing costs and administrative expenses	**1,056.3**	**1,304.2**	**247.9**	**23%**

In order to elucidate 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 shown below:

	2011 % of Total	2010 USD m	2011 USD m	Change USD m	Change %
Infrastructure and locomotive tariffs: loaded trips	**43%**	**479.7**	**556.0**	**76.4**	**16%**
Total Operating Cash Costs	**52%**	**510.6***	**671.8***	**161.2**	**32%**
Empty Run Costs		203.4*	233.8*	30.4	15%
Operating lease rentals – rolling stock		87.5	132.6	45.1	52%
Repairs and maintenance		63.7	76.2	12.6	20%
Employee benefit expense		46.4	62.2	15.7	34%
Infrastructure and Locomotive Tariffs: Other Tariffs and Services Provided by Other Transportation Organisations		29.2*	65.6*	36.4	125%
Fuel and spare parts – locomotives		21.3	27.7	6.4	30%
Engagement of locomotive crews		11.3	12.7	1.4	12%
Legal, consulting and other professional fees		3.3	9.3	6.0	183%
Other Operating Cash Costs		44.6*	51.7*	7.1	16%
Total Operating Non-Cash Costs	**6%**	**66.1***	**76.4***	**10.4**	**16%**
Depreciation of property, plant and equipment		63.0	75.1	12.0	19%
Amortisation of intangible assets		0.2	0.2	0.0	3%
Impairment charge for receivables		1.5	0.1	(1.3)	-92%
Loss on sale of property, plant and equipment		2.0	1.2	(0.8)	-39%
Reversal of impairment charge for property, plant and equipment		(0.7)	(0.2)	0.5	-74%
Total cost of sales, selling and marketing costs and administrative expenses	**100%**	**1,056.3**	**1,304.2**	**247.9**	**23%**

Financial review
continued

Infrastructure and locomotive tariffs: loaded trips

Infrastructure and locomotive tariffs: loaded trips is in principle a "pass-through" cost item for the Group[15] and is reflected in equal amounts in the Group's revenue and cost of sales. Infrastructure and locomotive tariffs: loaded trips increased 16% to USD 556.0 million in 2011 compared to the previous year; this is mainly due to increased business volumes, along with an annual increase in the regulated tariff for the services rendered by RZD.

Total Operating Cash Costs

The Group's Total Operating Cash Costs increased 32% to USD 671.8* million in 2011, compared to the previous year. This result was driven primarily by increased business volumes as well as cost inflation.

Total Operating Cash Costs (a non-GAAP financial measure) include cost items contained in cost of sales as well as selling and marketing costs and administrative expenses payable in cash.

The following table sets forth a breakdown of Total Operating Cash Costs for the years ended 31 December 2011 and 2010.

	2011 % of Total	2010 USD m	2011 USD m	Change USD m	Change %
Empty Run Costs	35%	203.4*	233.8*	30.4	15%
Operating lease rentals – rolling stock	20%	87.5	132.6	45.1	52%
Repairs and maintenance	11%	63.7	76.2	12.6	20%
Employee benefit expense	9%	46.4	62.2	15.7	34%
Infrastructure and Locomotive Tariffs: Other Tariffs and Services Provided by Other Transportation Organisations	10%	29.2*	65.6*	36.4	125%
Fuel and spare parts – locomotives	4%	21.3	27.7	6.4	30%
Engagement of locomotive crews	2%	11.3	12.7	1.4	12%
Legal, consulting and other professional fees	1%	3.3	9.3	6.0	183%
Other Operating Cash Costs	8%	44.6*	51.7*	7.1	16%
Total Operating Cash Costs	**100%**	**510.6***	**671.8***	**161.2**	**32%**

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure) accounted for 35% of Total Operating Cash Costs in 2011. Empty Run Costs were well managed and grew only 15% year on year to USD 233.8* million (well below the combined increase in the Group's business volumes and regulated tariff for the traction of the empty railcars). This increase was primarily driven by:

1. An increase in business volumes, with the Group's Freight Rail Turnover up 14% year on year;
2. An 8% increase[16] in the RZD regulated tariff for the traction of empty railcars;
3. An improvement in the Share of Empty Run Kilometres Paid by Globaltrans, which decreased from 82% in 2010 to 78%. It reflects the increased use of block train[17] logistics for transportation of coal and iron ore in which customers pay for Empty Runs (directly to RZD);
4. Total Empty Run Ratio was maintained at the level of 62%, reflecting the following factors:
   - Improved Empty Run Ratio for gondola cars to 41% (2010: 42%);
   - Increased Empty Run Ratio for rail tank and hopper cars to 111% (2010: 108%), primarily because of changed logistics in the transportation of oil products and oil.

Operating lease rentals – rolling stock

Operating lease rentals – rolling stock, which accounted for 20% of the Group's Total Operating Cash Costs in 2011, increased by 52% to USD 132.6 million compared to the previous year, reflecting an increase in the average number of railcars leased-in over the period, as well as substantially increased lease-in rates.

The increased lease-in rates, along with the Group's intention to replace a proportion of leased-in railcars with owned railcars, resulted in a 39% or 4,871 units decrease of leased-in fleet to 7,670 units at the end of 2011. The Group's recent contracts for the purchase of 9,988 railcars are partly aimed at replacing the returned leased-in fleet.

The Group intends to continue using a leased-in fleet, primarily to benefit from the operational flexibility that it provides.

Repairs and maintenance
Repairs and maintenance, which accounted for 11% of the Group's Total Operating Cash Costs in 2011, increased 20% to USD 76.2 million in 2011 compared to the previous year, reflecting cost inflation for repair works and spare parts, as well as an increased average size of fleet.

Employee benefit expense
Employee benefit expense, accounting for 9% of the Group's Total Operating Cash Costs, rose by 34% to USD 62.2 million in 2011 compared to the previous year. This increase was primarily driven by a 6% year-on-year increase in the average number of employees combined with general wage inflation, an increase in the Russian unified social tax rate, and a rise in results-driven bonuses awarded.

Infrastructure and Locomotive Tariffs: Other Tariffs and Services Provided by Other Transportation Organisations
Other Tariffs and Services Provided by Other Transportation Organisations (a non-GAAP financial measure), which is presented as part of the "Infrastructure and locomotive tariffs: empty run trips, other tariffs and services provided by other transportation organisations" component of cost of sales reported under EU IFRS, accounted for 10% of the Group's Total Operating Cash Costs in 2011. Other Tariffs and Services Provided by Other Transportation Organisations amounted to USD 65.6* million, representing a 125% increase compared to the previous year. The majority of this growth resulted from the increased usage of other transportation organisations in order to satisfy strong customer demand.

Fuel and spare parts – locomotive expenses
Fuel and spare parts – locomotive expenses, accounting for 4% of the Group's Total Operating Cash Costs, were USD 27.7 million in 2011, an increase of 30% compared to the previous year. This increase was primarily driven by the significant increase in fuel prices.

Engagement of locomotive crews
Costs related to the engagement of locomotive crews from RZD increased 12% to USD 12.7 million, primarily reflecting an increase in the volume of this service on the back of relatively stable pricing. This cost item accounted for 2% of the Group's Total Operating Cash Costs in 2011.

Legal, consulting and other professional fees
Legal, consulting and other professional fees, accounting for 1% of the Group's Total Operating Cash Costs in 2011, were USD 9.3 million, an increase of 183% compared to the previous year, principally reflecting the one-off expenses associated with investigating potential investment opportunities and their financing.

Other Operating Cash Costs
Other Operating Cash Costs, which comprised 8% of the Group's Total Operating Cash Costs, increased by 16% to USD 51.7* million in 2011 compared to the previous year, primarily due to an increase in "taxes (other than income tax and value-added taxes)". This is predominantly a property tax reflecting the increase in the number of Owned Fleet.

Other Operating Cash Costs (a non-GAAP financial measure) include "Operating lease rentals – office", "Auditors' remuneration", "Advertising and promotion", "Communication costs", "Information services", "Taxes (other than income tax and value added taxes)" and "Other expenses".

Total Operating Non-Cash Costs

Total Operating Non-Cash Costs were USD 76.4* million in 2011, an increase of 16% compared to the previous year. The main non-cash expense item of "Depreciation of property, plant and equipment" rose by 19% year on year to USD 75.1 million in 2011, reflecting the increase in the number of Owned Fleet.

Total Operating Non-Cash Costs (a non-GAAP financial measure) include "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables", "Loss on sale of property, plant and equipment" and "Reversal of impairment charge for property, plant and equipment".

15. 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
16. According to Federal Tariff Service of Russia; from 1 January 2011
17. A block train consists of Group-operated rolling stock bound for one destination. The use of block trains improves delivery times and increases railcar turnover, as it avoids the need to couple and decouple individual rolling stock at rail yards

Financial review
continued

EBITDA and Adjusted EBITDA (non-GAAP financial measures)

The Group's EBITDA increased by 31% year on year to USD 505.6* million in 2011, reflecting the strong performance of the underlying business and the factors described above.

Adjusted EBITDA increased by 29% year on year to USD 505.1* million in 2011. The difference between EBITDA and Adjusted EBITDA arises mostly from "Net foreign exchange transaction losses on financing activities", which are eliminated from Adjusted EBITDA.

The Group's Adjusted EBITDA Margin remained flat year on year at 43%* in 2011.

The following table sets forth EBITDA and Adjusted EBITDA for the years ended 31 December 2011 and 2010, and its reconciliation to profit for the year.

	2010 USD m	2011 USD m	Change USD m	Change %
Profit for the year	**225.9**	**317.2**	**91.3**	**40%**
Plus (Minus)				
Income tax expense	57.7	82.6	24.9	43%
Finance costs – net	45.9	32.6	(13.3)	-29%
Net foreign exchange transaction losses on financing activities	(7.5)	(2.0)	5.4	-73%
Amortisation of intangible assets	0.2	0.2	0.0	3%
Depreciation of property, plant and equipment	63.0	75.1	12.0	19%
EBITDA	**385.3***	**505.6***	**120.3**	**31%**
Minus (Plus)				
Net foreign exchange transaction losses on financing activities	(7.5)	(2.0)	5.4	-73%
Share of profit of associates	0.2	0.4	0.2	108%
Other gains – net	3.0	3.1	0.1	3%
Loss on sale of property, plant and equipment	(2.0)	(1.2)	0.8	-39%
Reversal of impairment charge for property, plant and equipment	0.7	0.2	(0.5)	-74%
Adjusted EBITDA	**390.9***	**505.1***	**114.2**	**29%**

Finance income and costs

Finance income

Finance income was USD 7.4 million in 2011, an increase of 2% compared to the previous year.

Finance costs

Finance costs decreased 25% to USD 39.9 million in 2011 compared to the previous year. This decrease was driven by the combination of the following factors:

- Total interest expense recorded a year-on-year decrease of 16% to USD 36.7 million in 2011. This was primarily due to a decreased level of liabilities:
  1. A decrease in "Interest expense: finance leases" of USD 9.2 million year on year to USD 4.3 million in 2011, related to the decline of the Group's lease liabilities;
  2. An increase in "Interest expense: non-convertible bond" of USD 4.5 million year on year to USD 8.4 million in 2011, reflecting coupon charges on non-convertible 5-year rouble-denominated bonds issued in July 2010;
- A decrease in "Net foreign exchange transaction losses on financing activities" of USD 5.4 million year on year to USD 2.0 million in 2011. This was driven by the decline in net US dollar-denominated liabilities as of the end of 2011 compared to the end of the previous year.

The following table sets forth a breakdown of finance income and costs for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m	Change USD m	Change %
Interest expense:				
Bank borrowings	(25.0)	(23.3)	(1.6)	-7%
Non-convertible bond	(3.9)	(8.4)	4.5	116%
Finance leases	(13.5)	(4.3)	(9.2)	-68%
Other interest-related parties	(0.3)	–	(0.3)	-100%
Other finance costs	(0.9)	(0.7)	(0.3)	-28%
Total interest expense	**(43.7)**	**(36.7)**	**(6.9)**	**-16%**
Net foreign exchange transaction losses on financing activities	(7.5)	(2.0)	(5.4)	-73%
Finance cost on liability for minimum dividend distribution	(2.0)	(1.2)	(0.8)	-42%
Finance costs	**(53.1)**	**(39.9)**	**(13.2)**	**-25%**
Interest income:				
Bank balances	0.3	0.6	0.3	98%
Short-term bank deposits	0.7	2.5	1.8	264%
Finance leases	5.2	4.2	(1.0)	-19%
Loans to third parties	0.0[18]	–	(0.0)	-100%
Total interest income	6.2	7.4	(1.1)	18%
Amortisation of financial guarantees	1.0	–	(1.0)	-100%
Finance income	**7.2**	**7.4**	**0.2**	**2%**
Net finance costs	**(45.9)**	**(32.6)**	**(13.3)**	**-29%**

Profit before income tax

Profit before income tax increased by 41% to USD 399.8 million in 2011 compared to the previous year. This increase was driven primarily by a USD 102.6 million year-on-year increase in operating profit, combined with a USD 13.3 million year-on-year decrease in net finance costs.

Income tax expense

Income tax expense increased 43% year on year to USD 82.6 million in 2011, due to higher taxable profits. The weighted average applicable tax rate for the Group was 18.4% in 2011 (2010: 17.8%). The increase in the average applicable tax rate was due to the increased profitability of Russian subsidiaries of the Group, which are taxed at 20%, compared to the Estonian subsidiaries, which have a zero applicable tax rate.

Liquidity and capital resources

The business of freight rail transportation is capital-intensive. In 2011, the Group was able to meet its liquidity and capital expenditure needs from operating cash flow, cash and cash equivalents available at 31 December 2010 as well as proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2011, the Group had positive Net Working Capital of USD 99.2* million. The Group believes that it has sufficient working capital for the next 12 months. In addition, the combination of strong operating cash flow and a robust balance sheet with significant potential for further leverage is expected to enable it to operate successfully and expand its business during the upcoming year.

18. USD 2,000

Financial review
continued

Cash flows

The following table sets forth the principal components of the Group's consolidated cash flow statement for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m
Cash flows from operating activities	**393.6**	**508.1**
Changes in working capital:		
Inventories	(1.1)	(1.6)
Trade and other receivables	(79.3)	3.7
Trade and other payables	10.1	(5.1)
Cash generated from operations	**323.3**	**505.2**
Tax paid	(34.3)	(63.4)
Net cash from operating activities	**288.9**	**441.8**
Net cash used in investing activities	**(293.0)**	**(126.2)**
Acquisition of subsidiaries – net of cash acquired	(7.0)	–
Purchases of property, plant and equipment	(299.8)	(173.9)
Receipts from finance lease receivable	4.5	35.9
Other[19]	9.4	11.8
Net cash used in financing activities	**(17.6)**	**(328.7)**
Net cash inflows (outflows) from borrowings and financial leases[20]	71.1	(125.9)
Interest paid	(43.6)	(36.5)
Acquisition of non-controlling interests	–	(81.7)
Contribution from non-controlling interests	0.0[21]	–
Dividends paid to Company's shareholders	(24.0)	(58.5)
Dividends paid to non-controlling interests	(21.2)	(26.1)
Net decrease in cash and cash equivalents	**(21.6)**	**(13.1)**
Exchange losses on cash and cash equivalents	(0.5)	(4.1)
Cash, cash equivalents and bank overdrafts at end of year	**137.0**	**119.7**

Net cash from operating activities

Net cash generated from operating activities increased 53% to USD 441.8 million in 2011, compared to the same period the previous year. This was the result of the following factors:
- Cash flows from operating activities increased 29% to USD 508.1 million, driven by the strong growth of the underlying business;
- A decrease of cash outflow from changes in working capital to USD 2.9 million in 2011, compared to USD 70.4 million in the previous year;
- An increase in tax paid in 2011 to USD 63.4 million, compared to USD 34.3 million in the previous year, driven primarily by a higher income tax charge due to higher taxable profits.

Net cash used in investing activities

Net cash used in investing activities decreased 57% to USD 126.2 million in 2011 compared to the previous year, driven primarily by a 42% decrease in purchases of property, plant and equipment to USD 173.9 million in 2011, compared to USD 299.8 million in the previous year. This reflects the management decision to scale back its investment programme temporarily in 2011 because of elevated railcar prices.

In addition, as a result of the pre-term settlement of a finance lease receivable, Globaltrans recorded an increase in receipts from finance lease receivable, which rose from USD 4.5 million in 2010 to USD 35.9 million in 2011.

Net cash used in financing activities

Net cash used in financing activities increased from USD 17.6 million in 2010 to USD 328.7 million in 2011. It consisted primarily of the following:
- Net cash outflows from borrowings and finance leases[20] of USD 125.9* million, reflecting continued steps to deleverage the business;
- Interest paid of USD 36.5 million;
- Payment of USD 81.7 million for the additional acquisitions of shareholdings in its controlled subsidiaries as follows:

1. Acquisition of an effective 10% additional interest in LLC BaltTransServis from an unrelated third party for a total cash consideration of USD 74.5 million. As a result, the Company's holding in LLC BaltTransServis increased to 60%;
2. Acquisition of an additional 4.25% in AS Spacecom from Transportation Investments Holding Limited (a parent to the Company) for a total cash consideration of USD 7.2 million. As a result, the Company's holding in AS Spacecom increased to 65.25%.

- Payment of USD 26.1 million of dividends to non-controlling interests; and
- Payment of USD 58.5 million in dividends to Company shareholders, compared to USD 24.0 million paid in the previous year.

Capital expenditure

The Group's capital expenditure in the last year has principally funded the acquisition of rolling stock. In 2011, the Group significantly scaled back its opportunistic investment programme on the back of an increase in prices for new rolling stock. In the final months of 2011, when the prices for new rolling stock declined to more economically justified levels, Globaltrans announced an investment programme to acquire up to 10,000 new railcars by the end of 2012.

In 2011, the Group took delivery of 1,764 units[22] of rolling stock (1,169 gondola cars and 595 rail tank cars).

The Group's capital expenditure on acquisition of rolling stock (including rolling stock leased under finance leases) on an accrual basis, as well as capitalised repairs, amounted to USD 131.6 million in 2011.

Given the strong demand for the Group's services and the decreased railcar prices, Globaltrans resumed its opportunistic investment programme in the final months of 2011. For more details please refer to the "Recent developments" section below.

Capital resources

In 2011, Globaltrans continued to take steps to deleverage the business. The Group's total debt as at 31 December 2011 was USD 379.1 million, a decrease of 27% when compared to the end of 2010.

With cash and cash equivalents of USD 120.8 million at 31 December 2011, the Group's Net Debt decreased 32% to USD 258.4* million as at 31 December 2011.

In 2011, Globaltrans maintained a robust balance sheet and the Group's Net Debt to Adjusted EBITDA ratio improved to 0.5x* at 31 December 2011, compared to 1.0x* at the end of 2010.

The debt currency largely matched the Group's revenue currency in 2011 and rouble-denominated borrowings accounted for 79% of the Group's debt portfolio as at the end of 2011.

The following table sets forth the Group's debt structure as at 31 December 2011.

	31 December 2011 USD m	% of Total
Bank borrowings	254.2	67%
Non-convertible unsecured bonds	75.7	20%
Finance lease liabilities	48.2	13%
Bank overdrafts	1.0	0.3%
Total	**379.1**	**100%**

The carrying amounts of borrowings were denominated in the following currencies as at 31 December 2011 and 31 December 2010.

	As at 31 December 2010 USD m	% of Total	As at 31 December 2011 USD m	% of Total
Russian rouble	405.8	78%	299.1	79%
US dollar	113.1	22%	79.9	21%
Euro	0.2	0.03%	0.1	0.03%
Total	**519.0**	**100%**	**379.1**	**100%**

19. "Other" represents the sum of the following IFRS line items: "Loans repayments received from third parties", "Proceeds from disposal of property, plant and equipment", "Proceeds from sale of assets classified as held for sale" and "Interest received"
20. Net cash inflows (outflows) from borrowings and financial leases defined as a balance of "Proceeds from borrowings", "Repayments of borrowings" and "Finance lease principal payments"
21. USD 28,000
22. 27 units of rolling stock (4 locomotives and 23 railcars) were disposed of over 2011

Financial review
continued

The Group's weighted average effective interest rate remained relatively flat at 8.37%* as at 31 December 2011 compared to 8.51%* as at 31 December 2010.

In addition, the Group continued executing its strategy for reducing financial risks. The share of borrowings with a fixed interest rate was 68%* at 31 December 2011 compared to 50%* at the end of 2010.

The following table sets forth the maturity profile of the Group's borrowings (including accrued interest of USD 2.2* million) as at 31 December 2011

	As at 31 December 2011 USD m
1st quarter of 2012	40.6*
2nd quarter of 2012	59.8*
3rd quarter of 2012	29.5*
4th quarter of 2012	40.9*
2013	79.6*
2014	75.3*
2015-2017	53.4*
Total	**379.1**

After the year-end, the Group raised RUB 10 billion (approximately USD 341.4 million at 6 March 2012 exchange rate) through a Russian rouble-denominated bond placement and approximately USD 410 million through various long-term credit facilities (predominantly denominated in Russian roubles with 5-year maturity) in order to finance its ongoing investment programme. For details, please refer to the "Recent developments" section below.

Recent developments

In accordance with the decision of the Extraordinary General Meeting which took place on 20 December 2011, in January 2012 the Company completed the purchase of 3,637,117 of its own ordinary shares, constituting 2.3% of the issued share capital of the Company, from Envesta Investments Limited at the price of USD 11.87 per share for a total consideration of USD 43.2 million. Following the acquisition of its own shares, the Group's principal shareholders of more than 5% of issued share capital are:

1. Transportation Investments Holding Limited (ultimately controlled by a company which is beneficially owned by Konstantin Nikolaev, Nikita Mishin and Andrey Filatov), with a 50.10% interest in the Company;
2. Alexander Eliseev, Chairman of the Board of Directors of the Company, and Sergey Maltsev, Chief Executive Officer, holding respectively a 7.16% and 5.07% beneficial interest in the Company through Envesta Investments Limited and other entities controlled by them.

Given the strong demand for the Group's services and the decreased railcar prices, Globaltrans resumed its opportunistic investment programme during the last months of 2011.

Since then, the Group has, in aggregate, contracted to purchase 9,988 railcars, with 7,560 units delivered as at the date of this report. Deliveries of the remaining units are expected by the end of June 2012. All contracted railcars are to be financed with the Company's own funds as well as borrowings.

In March 2012, New Forwarding Company, a Russian subsidiary of the Company, issued 3-year Russian rouble-denominated exchange-traded bonds for a total amount of RUB 10 billion (approximately USD 341.4 million at 6 March 2012 exchange rate) at a coupon rate of 10.00% per annum. The bonds are traded on MICEX in Moscow. Moody's Investors Service has assigned a B1 rating with positive outlook to the bond issue. The Company acts as the guarantor for the issue.

In addition, the Group also raised approximately USD 410 million through various long-term credit facilities (predominantly denominated in Russian roubles with 5-year maturity).

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 incorporated in Cyprus, which owns 50.1% of the Company's shares. Envesta Investments Limited owns 14.5%[23] (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.

For detailed information on the related party transactions, please refer to to Note 30 of the consolidated financial statements (Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report).

The following table sets forth the summary of transactions which were carried out with related parties for the years ended 31 December 2011 and 2010.

	2010 USD m	2011 USD m
Sales of goods and services	134.4	**156.4**
Purchase of goods and services	32.8	**27.9**
Additions of property, plant and equipment	1.3	**2.0**
Disposals of property, plant and equipment	0.0[24]	**–**
Interest expense	(0.9)	**–**
Key management salaries and other short-term employee benefits[25]	18.0	**21.1**

The following table sets forth the year-end balances with related parties arising from sales/purchases of goods/services.

	2010 USD m	2011 USD m
Trade and other receivables	12.3	**14.8**
Prepayments	7.9	**2.8**
Trade payables	1.3	**0.5**
Advances received	3.0	**1.4**

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

	2010 USD m	2011 USD m
Group as a lessor	0.009	**0.015**
Group as a lessee	17.2	**21.1**

Other transactions with related parties

Year ended 31 December 2011

- In December 2011, the Company acquired an additional stake of 4.25% of shares in AS Spacecom, a subsidiary of the Company, from its parent entity for a total consideration of USD 7.2 million, bringing its shareholding in AS Spacecom to 65.25%.
- In September 2011, the Company received EUR 4.5 million (USD 6.3 million) from its parent entity as compensation of 61% for losses AS Spacecom suffered as a result of the legal claim which were not previously recognised in the Group's consolidated financial statements.

Year ended 31 December 2010

- In accordance with the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Spacecom Trans (formerly AS Intopex Trans) and amendments thereto, in April 2010, the Company has settled in full its liability to the parent including accrued interest.

23. The Group's ownership structure is presented as of 31 December 2011
24. USD 8,000
25. 'Key management salaries and other short-term employee benefits' include bonuses amounting to USD 15.0 million for the year ended 31 December 2011 (2010: USD 11.7 million) and Directors' remuneration paid to the Directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to USD 2.4 million (2010: USD 1.4 million)

Principal risks and uncertainties

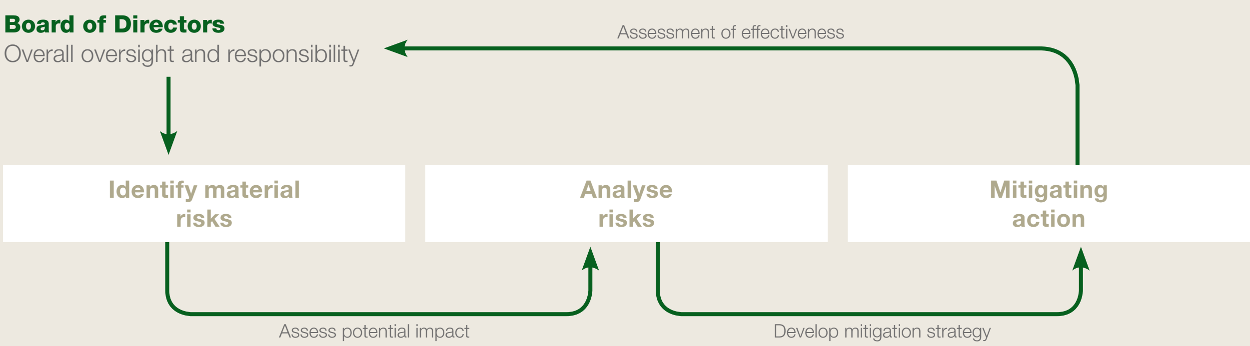
Globaltrans has comprehensive risk control and management systems in place to prevent any adverse effects from changes in its environment or situation

The Board of Directors has adopted a formal process to identify, evaluate and manage significant risks and systematically monitors and undertakes an assessment of risks critical to the Group's performance and strategic delivery. The risks which the Board of Directors considers to be significant risks are presented on the following pages. The order in which these risks are presented is not an indication of the probability of their occurrence or the magnitude of their potential effects. There may be additional risks that are not currently known to the Group, or that it believes are immaterial, which 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 global depositary receipts.

For detailed information on the risk management process within Globaltrans, please refer to "Risk management", included in the "Governance" section of this Annual Report on page 65.

Strategic risks	**Operational risks**	**Compliance risks**	**Financial risks**
Operating environment	Infrastructure	Pending and potential legal actions	Currency risks
Relations with the Government and state-owned enterprises	Employees	Fiscal risks	Interest rates
Growth strategies	Customer satisfaction		Credit risks
Competition and customer concentration			
Locomotive traction			

Our approach



Globaltrans successfully navigated through the economic downturn of 2009, precisely because its robust business model seeks to balance growth and resilience to market downturns.

Strategic

The risks that influence the Group's ability to achieve its strategy.

Operating environment

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Group and its subsidiaries operate mainly in the Russian Federation, certain other emerging markets and Estonia.	Mitigation methodology involves understanding the political and economic uncertainties of the operating environment and the risks faced by all our business operations.
Emerging markets, such as the Russian Federation, Kazakhstan and Ukraine, are subject to greater risks than more developed markets, including significant economic, political, social, legal and legislative risks.	The Group's compliance and legal teams constantly monitor changes in legislation and report them to the Group's management and Board of Directors.
The Group is dependent on demand in the Russian freight rail transportation market, which in turn depends on certain key economic sectors and, accordingly, on economic growth.	Globaltrans successfully navigated through the economic downturn of 2009, largely because its robust business model seeks to balance growth and resilience to market downturns. A well-balanced fleet is the one of the cornerstones of the Group's business model. The Group intends to continue to maintain a balance between universal gondola cars, used for transporting various bulk cargoes, and rail tank cars, which enable Globaltrans to operate in one of the most stable sectors for the rail transportation of oil products and oil.

Relations with Government authorities and state-owned enterprises

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Government authorities have a significant influence over the functioning of the Russian freight rail market. A deterioration in the Group's direct or indirect relationship with Government authorities at either the local or federal level could result in greater Government scrutiny of the Group's business.	The management of the Group constantly monitors any changes to the regulatory regime of the railway transportation market in the countries where it operates.
	The Group has a diversified portfolio of service providers (e.g. rolling stock repair services), which allows it to use private repair depots to ensure less dependence on RZD-owned providers of depots providing railcar repair services, higher quality, and to minimise costs.
In addition, the Group is dependent on the services (including maintenance and repairs) and information provided by, and its relationship with, RZD, an entity controlled by the state. Although the Group has enjoyed a good relationship with RZD, there is no assurance that it will always continue to do so in the future.	RZD continues to be the only provider of infrastructure and locomotive traction services, although the Group does operate its own locomotives in the form of block trains on some stable routes. The Group also continues to monitor liberalisation reforms, to ensure that it will be able to take advantage of any opportunities when they arise.
	The Group is forecasting and assessing the influence of adverse changes in RZD's regulated tariffs for usage of infrastructure and locomotive traction by providing that these changes are adequately passed through to the Group's customers.

Principal risks and uncertainties
continued

Growth strategies

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Expansion of the Group's business may place a strain on its resources. Moreover, insufficient supply of, or increases in the price of, rolling stock may limit the Group's growth opportunities.	The Group employs a disciplined approach to investments. The Group deals with a number of rolling stock producers in Russia and Ukraine and tries not to place too much reliance on any particular supplier.
In addition to pursuing organic growth strategies, the Group has in the past expanded its operations through acquisitions, and may do so in the future. The pursuit of an acquisition strategy entails certain risks, including problems with integrating and managing such new acquisitions.	Any M&A opportunity being seriously considered with a prospective target is subject to a comprehensive due diligence process in respect of its financial and tax, operational and legal affairs with reputable external professional consultants. Globaltrans rigorously negotiates sufficient protective mechanisms against the identified risks in the M&A documentation. Any valuation of the target is also subject to review by external advisers and fairness opinions are normally provided by recognised investment banks to the Board of Directors of the Company when the transaction is considered.

Competition and customer concentration

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Russian rail transportation market is becoming increasingly competitive resulting from further deregulation. In 2011, RZD privatised just under 75% of OJSC Freight One, resulting in the private ownership of over 70% of the fleet in Russia. In addition, RZD completed the transfer of its commercial fleet into its wholly-owned subsidiary OJSC Freight Two; as a result, the majority of the commercial fleet in Russia is no longer subject to tariff regulation, which could lead to greater price competition for the Group.	While Freight One and Freight Two will continue to be direct competitors of the Group, Globaltrans has significant competitive advantages, aimed at enabling it to grow market share over the long term. These advantages include its (i) strong reputation for high-quality service and reliability; (ii) independent status; (iii) long-term partnership with customers; and (iv) sophisticated operating capabilities. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends.
The Group's customer base is characterised by significant concentration, with its top ten customers and their suppliers accounting for 67% of the Group's Net Revenue from Operation of Rolling Stock in 2011.	The Group is expanding the geographic spread of its operations, launching new freight services in the CIS countries (including Kazakhstan, Ukraine, Belarus and Azerbaijan). This allows the Group to diversify its cargo mix and develop relationships with new customers. The Group has long-term, established relationships with its key customers and their affiliates and suppliers. In most cases, Globaltrans has become an integrated part of their operations.

Locomotive traction

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Group is dependent upon RZD, to provide it with locomotive crews and for locomotive services on routes where its locomotives do not operate. The Group is also dependent upon RZD to issue permits for it to operate locomotives and to approve its use of locomotives for particular routes.	The Group has a competitive advantage in providing freight rail transportation services to some of its clients because it operates its own locomotives for the traction of block trains dedicated to particular routes. By assembling full trains composed only of its own railcars, the Group increases the speed, and decreases the cost, of transportation for its clients.
There is uncertainty as to the prospects for, and the timing of, further deregulation of locomotive traction.	The Group has established controls to ensure the timely renewal of locomotive operation licences and respective permits from RZD.
	The Group regularly monitors the progress of the reform relating to continuing deregulation in locomotive traction. In addition, the Group's management actively participates in the development of required regulation through various dedicated industrial organisations and partnerships.
	In 2011, the Russian Government took a further important steps towards expanding competition in the locomotive traction segment by establishing the infrastructure tariff for private carriers operating their own locomotives. The next steps include developing the access regulations, along with a technical and operational framework.

Operational

The risks that influence the Group's operational efficiency.

Infrastructure

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The physical infrastructure owned and operated by RZD, particularly its rail network, as well as the railway network and other physical infrastructure in Kazakhstan and Ukraine, largely dates back to Soviet times. In many cases it has not been adequately maintained, which could negatively affect the condition of the Company's rolling stock, performance and business.	Practically all the Group's rolling stock is adequately insured. Moreover, RZD, as a freight carrier on the railway network, bears full responsibility for third-party losses caused by accidents on the network.
RZD charges the Group and other private freight rail operators' tariffs for the use of the railway network and for the provision of locomotive services, which are regulated by the Federal Tariff Service. Whereas loaded tariffs are passed through to the Group's customers as part of the price for the transportation services provided, tariff for traction of empty railcars is in most cases a direct cost of the Group. Significant upward changes in the regulated tariffs whether as a result of annual indexation or changes in tariff setting methodology could have an adverse effect on the Group's business.	The Group monitors its rolling stock through its dispatch centre on a 24/7 basis and plans its routes accordingly to minimise the risks of disruption.
	The Group monitors the Federal Tariff Service initiatives with the aim of detecting possible changes in tariff setting methodology and tries to reflect respective changes in the Group's contracts with its customers.

Employees

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Group's future success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel, in particular experienced management personnel. Competition in Russia for such personnel with relevant expertise is intense due to the small number of qualified individuals with suitable practical experience in the rail industry.	Adequate remuneration packages, which are in line with or in excess of market levels, are offered to all our employees; remuneration is linked to the financial results of the Group. The Group's HR function regularly monitors salary levels and other benefits offered by our competitors to ensure that remuneration packages in the Group are adequate.

Principal risks and uncertainties continued

Customer satisfaction

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Group's customers rely on the Group for the provision of high-quality freight rail transportation and other related services and expect the Group to be commercially responsive to their needs. These include timely pick-up and delivery of cargo and availability of rolling stock.	The Group has a high reputation for delivering high-quality, reliable and flexible freight rail transportation services to its customers. Customer satisfaction is one of the key metrics that the Group's management monitors.
The ability to meet customer expectations is often outside the direct control of the Group. Since the Group relies on RZD for locomotive traction and infrastructure usage, timely delivery of cargo is highly dependent on a third party whose differing incentives may result in its performing in a manner that would be unsatisfactory to the Group's customers.	Each customer is assigned an account manager who is responsible for the day-to-day relationship with that customer.
	Customer feedback is analysed and appropriate follow-up actions are taken.

Compliance

The risks that influence the Company's adherence to relevant laws and regulations.

Pending and potential legal actions

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Although there are currently no pending material legal actions involving the Group, adverse determination of any future potential legal actions involving the Company or its subsidiaries could have an adverse effect on the Group.	The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to a rigorous review by all the concerned Group functions and a formal approval process prior to execution.

Fiscal

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Local tax, currency and customs legislation, especially in Russia and other emerging markets, may be subject to varying interpretations, inconsistencies between federal laws, regional and local laws, rules and regulations, frequent changes and a lack of judicial and administrative guidance on interpreting legislation.	The Group has controls in place, including highly qualified and experienced personnel to monitor changes in legislation and determine the appropriate treatment in order to minimise the risk of a challenge to such treatments by the authorities. For complex matters, the Group retains external consultants.

Financial

The risks that influence the Company's financial performance.

Currency risks

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Currently, the Group has a proportion of long-term borrowings and lease liabilities denominated in US dollars. The Group does not have formal arrangements for hedging this foreign exchange risk. 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 results of operations and on its financial condition. The Group is also exposed to the effects of currency fluctuations between the US dollar (the presentational currency of the Group) and the euro, which is the Functional Currency of the Group's Estonian subsidiaries, and the US dollar and the Ukrainian hryvnia, which is the Functional Currency of the Group's Ukrainian subsidiary.	A large proportion of the Group's revenues and expenses are denominated and settled in Russian roubles. Risks related to liabilities denominated in foreign currency are partly compensated for by assets and income denominated in foreign currency. The Group has refinanced some of its US dollar-denominated liabilities with long-term debt denominated in Russian roubles and intends to continue to do so. However, as the US dollar interest rate continues to be relatively attractive compared to the Russian rouble interest rate, a portion of the Group's long-term borrowings continue to be denominated in US dollars. Since 2008, the Group has taken action to mitigate currency risks and adjust the profile of borrowings in the Group's credit portfolio. As of 31 December 2011, the Group had about 79% of its total debt denominated in Russian roubles.

Interest rate risks

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
The Group's income and operating cash flows are exposed to changes in market interest rates. These arise mainly from floating rate lease liabilities and borrowings.	The Group concludes lease and long-term borrowing contracts to finance the purchase of rolling stock. The Group borrows 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 is practicable by ensuring that the Group has financial liabilities with both floating and fixed interest rates. As of 31 December 2011, the portion of total debt with a fixed interest rate amounted to 68%*. Management also considers alternative means of financing.

Credit risks

DESCRIPTION OF RISKS	CONTROLS AND MITIGATING FACTORS
Financial assets that potentially subject the Group to credit risk consist principally of trade receivables and finance lease receivables, and cash and cash equivalents. Furthermore, the Group's business is heavily dependent on a few large key customers, including its affiliates and suppliers. These accounted for over 70% of the Group's trade and other receivables on 31 December 2011.	The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The majority of bank balances are held with independently rated parties with a minimum rating of 'B'.

Selected operational information

Rolling stock fleet

	2010	2011	Change	Change, %
Owned Fleet				
Gondola cars	20,650	21,797	1,147	6%
Rail tank cars	16,976	17,570	594	3%
Hopper cars	370	370	–	0%
Locomotives	57	53	(4)	-7%
Flat cars	120	120	–	0%
Total	**38,173**	**39,910**	**1,737**	**5%**
Rolling stock leased-in under operating leases				
Gondola cars	8,918	4,810	(4,108)	-46%
Rail tank cars	3,622	2,857	(765)	-21%
Hopper cars	0	0	–	0%
Locomotives	1	3	2	200%
Flat cars	0	0	–	0%
Total	**12,541**	**7,670**	**(4,871)**	**-39%**
Total Fleet **(Owned Fleet plus rolling stock leased-in under operating leases)**	**50,714**	**47,580**	**(3,134)**	**-6%**
Rolling stock leased-out under operating leases				
Gondola cars	780	1,089	309	40%
Rail tank cars	4,887	5,551	664	14%
Hopper cars	125	370	245	196%
Locomotives	4	0	(4)	-100%
Flat cars	20	20	–	0%
Total	**5,816**	**7,030**	**1,214**	**21%**
Average age of Owned Fleet				
Gondola cars	4.7	5.5	0.8	–
Rail tank cars	8.4	9.2	0.8	–
Hopper cars	4.1	5.0	1.0	–
Locomotives	5.8	6.9	1.1	–
Flat cars	1.7	2.7	1.0	–
Total	**6.3**	**7.1**	**0.8**	–

Operation of rolling stock

	2010	2011	Change	Change, %
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**42.0**	**49.8**	**7.7**	**18%**
Ferrous metals	29.3	25.5	(3.9)	-13%
Scrap metal	2.8	2.9	0.0	1%
Iron ore	9.8	21.4	11.6	117%
Oil products and oil	**29.8**	**30.9**	**1.1**	**4%**
Construction materials	**2.8**	**4.9**	**2.2**	**79%**
Construction materials - crushed stone	1.4	2.9	1.5	112%
Construction materials - cement	0.3	0.4	0.1	20%
Construction materials - other	1.1	1.6	0.6	55%
Coal (thermal and coking)	**17.7**	**19.4**	**1.7**	**10%**
Other	**5.1**	**5.6**	**0.5**	**9%**
Total	**97.4**	**110.6**	**13.2**	**14%**

	2010	2011	Change	Change, %
Transportation Volume, million tonnes				
Metallurgical cargoes	**20.0**	**23.9**	**3.8**	**19%**
Ferrous metals	11.3	11.6	0.3	3%
Scrap metal	3.1	3.1	(0.1)	-2%
Iron ore	5.6	9.1	3.6	65%
Oil products and oil	**28.4**	**24.7**	**(3.7)**	**-13%**
Construction materials	**3.0**	**4.9**	**1.8**	**60%**
Construction materials - crushed stone	1.6	3.2	1.5	91%
Construction materials - cement	0.4	0.4	(0.0)	-8%
Construction materials - other	1.0	1.3	0.3	34%
Coal (thermal and coking)	**8.3**	**11.1**	**2.7**	**33%**
Other	**4.0**	**5.0**	**1.0**	**24%**
Total	**63.8**	**69.6**	**5.7**	**9%**

	2010	2011	Change	Change, %
Transportation Volume by cargo class				
Class 1	32%	42%	10%	–
Class 2	42%	36%	-6%	–
Class 3	26%	22%	-3%	–

Selected operational information
continued

Operation of rolling stock

	2010	2011	Change	Change, %
Average Rolling Stock Operated				
Gondola cars	22,543	27,183	4,640	21%
Rail tank cars	13,855	14,869	1,014	7%
Hopper cars	244	174	(69)	-28%
Locomotives	40	37	(3)	-8%
Other cars	110	99	(11)	-10%
Total	36,793	42,363	5,570	15%
Average Number of Loaded Trips per Railcar				
Gondola cars	24.8	25.8	1.0	4%
Rail tank cars	36.8	28.3	(8.5)	-23%
Hopper cars	20.8	19.6	(1.2)	-6%
Total	29.3	26.6	(2.6)	-9%
Average Distance of Loaded Trip, km				
Gondola cars	1,974.1	1,816.1	(158.0)	-8%
Rail tank cars	988.7	1,237.8	249.1	25%
Hopper cars	859.0	903.4	44.4	5%
Total	**1,504.0**	**1,596.6**	**92.5**	**6%**
Average Price per Trip				
Average Price per Trip in USD	770.4	970.8	200.0	26%
Average Price per Trip in RUB	23,403	28,536	5,133	22%
Net Revenue from Operation of Rolling Stock by cargo type, USD million				
Metallurgical cargoes	**276.7***	**399.6***	**123.0**	**44%**
Ferrous metals	217.5*	269.3*	51.8	24%
Scrap metal	24.6*	34.2*	9.6	39%
Iron ore	34.6*	96.2*	61.6	178%
Oil products and oil	**419.0***	**460.5***	**41.5**	**10%**
Coal (thermal and coking)	**76.8***	**125.2***	**48.4**	**63%**
Construction materials, inc. cement	**15.2***	**41.8***	**26.6**	**174%**
Other	**42.4***	**68.6***	**26.3**	**62%**
Total	**830.0***	**1,095.8***	**265.7**	**32%**
Net Revenue from Operation of Rolling Stock by cargo class				
Class 1	21%	28%	–	–
Class 2	46%	43%	–	–
Class 3	33%	29%	–	–

Operation of rolling stock

	2010	2011	Change	Change, %
Net Revenue from Operation of Rolling Stock by largest clients[26]				
TNK-BP	23%	20%	–	–
MMK	11%	11%	–	–
Evraz	9%	8%	–	–
LUKOIL	10%	5%	–	–
Metalloinvest	1%	6%	–	–
Gazpromneft	6%	5%	–	–
Rosneft	4%	3%	–	–
Severstal	4%	3%	–	–
Ural steel	3%	3%	–	–
Mechel	1%	2%	–	–
Other (inc. small and medium enterprises)	28%	33%	–	–
Empty Run Ratio				
Gondola cars	42%	41%	–	–
Rail tank cars and hopper cars	108%	111%	–	–
Total Empty Run Ratio	62%	62%	–	–
Empty Run Costs, USD million	**203.4***	**233.8***	**30.4**	**15%**
Share of Empty Run Kilometres Paid by Globaltrans	**82%**	**78%**	**-5%**	**–**

Employees

	2010	2011	Change	Change, %
Employees by departments (simplified)				
Operations	642	679	37	6%
Administrative	317	331	14	4%
Total	958	1,009	51	5%

26. Largest clients defined as clients, their affiliates and suppliers

Definitions

Terms that require definitions are marked with capital letters in this Annual Report and their definitions are provided below in alphabetical order

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction losses on financing activities", "Share of profit of associates", "Other gains – net", "Loss on sale of property, plant and equipment" and "Reversal of impairment charge for 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 year" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction losses 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 JSC Russian Railways for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: 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. The functional currency of the Company, its Cyprus and Russian subsidiaries is the rouble. The Estonian and Finnish subsidiaries have the euro as their functional currency. The Ukrainian subsidiary of the Company has the Ukrainian hryvnia as its functional currency.

Net Debt (a non-GAAP financial measure) is defined as the sum of total 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".

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 for transportation services", "Advances from related parties for transportation services", "Accrued expenses", "Other payables to related parties".

Total 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", "Impairment charge for receivables", "Loss on sale of property, plant and equipment" and "Reversal of impairment charge for property, plant and equipment".

Total Operating Non-Cash Costs (a non-GAAP financial measure) include line items such as "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables", "Loss on sale of property, plant and equipment" and "Reversal of 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)" and "Other expenses".

Other Tariffs and Services Provided by Other Transportation Organisations (a non-GAAP financial measure) is presented as part of the "Infrastructure and locomotive tariffs: 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 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 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

Below you can find an explanation of how the information in this Annual Report is presented

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 2011 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 2011 are included in Appendix 2 "Directors' report and parent company financial statements for the year ended 31 December 2011".

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 and Finnish subsidiaries have the euro as their functional currency. The Ukrainian subsidiary of the Company has the Ukrainian hryvnia as its functional currency.

The Group's financial and operational information for 2007 has been restated to include the impact of consolidation of AS Spacecom and AS Spacecom Trans acquired in December 2008; for 2008 – to include the impact of consolidation of LLC BaltTransServis acquired in December 2009.

Non-GAAP financial information

In this Annual Report the Group has used certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures"). 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 is marked with capital letters and the definitions and explanations are provided on pages 56-57 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 to illustrate the changes in the Group's operational and financial performance during the reporting periods. This operational information is derived from management accounts.

The Group's selected operational information for the year ended 31 December 2011 is provided on pages 52-55 of this Annual Report. Selected operational information for prior years can be found on Globaltrans' corporate website (www.globaltrans.com).

Terms referring to such operational information are marked with initial capital letters with definitions or explanations provided on pages 56-57 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. The Group's market share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume of respective cargoes.

The Group has obtained certain statistical, market and pricing information that is presented in this Annual Report on such topics as the Russian freight rail transportation market, the Russian economy in general and related subjects from the following third-party sources: Rosstat; OJSC Russian Railways ("RZD"), Ministry

of Economic Development of Russian Federation and Federal Tariff Service of Russian Federation ("FST"). The Group has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third-party sources, no facts have been omitted that would render the reproduced information inaccurate or misleading.
The Group has not independently verified this third-party information. In addition, the official data published by Russian governmental agencies is substantially less complete or researched than that of more developed countries.

All non-GAAP financial and operational information presented in this Annual Report should be used only as an analytical tool and investors should not consider such information, in isolation or in any combination, 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 for the year ended 31 December 2011" 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 this Annual Report.

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 financial condition, results of operations, business, strategies and prospects 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.

Board of Directors

Our vision of being a leading freight rail group requires powerful governance policies and procedures

Globaltrans' Board of Directors believes that good corporate governance is essential to ensuring the successful running of the Group. It is therefore committed to maintaining high standards of governance throughout the Company and its subsidiaries. The Group is determined to guarantee that the interests of all shareholders are given due consideration. Globaltrans ensures a balanced composition of its Board between Executives and Non-Executive Directors, with the presence of Independent Directors. As a result of these measures, the Group believes it offers an open, responsible working environment, ensuring that it is able to continue to deliver a strong performance.

Corporate governance policies

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

Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. As such, all employees are required to comply with these guidelines and the Group's management team takes responsibility 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 supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the 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 achieving the Group's strategic objectives and for delivering sustainable growth in shareholder value. The Group's Directors are therefore expected to act in a way they consider will promote the long-term success of the Company for the benefit of shareholders.

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 that enables risk to be assessed and managed;
- Review the management's performance;
- Set Group 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 also reviews the Company's principal risks and assesses the adequacy of internal controls. In addition, the Board takes overall responsibility for ensuring that a framework of good corporate governance is in place, including processes for financial reporting and compliance with relevant regulations.

Board of Directors
continued

The Non-Executive Directors perform an essential role in safeguarding the long-term interests of shareholders.

The Board understands the need for an appropriate balance between Executive and Non-Executive Directors, together with the presence of Independent Directors, in order to represent the interests of all 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 is presented in the 'Composition of the Board' section on the pages below.

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

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 judgement 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 with, or be reasonably perceived to interfere with, their judgment.

The Board considers that the current balance of Executive and Non-Executive Directors' influence is appropriate for the Company, taking into account its size and status. While 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 management are constructively challenged, fully discussed and examined, and that they take account of the long-term interests, not just of shareholders, but also of employees, customers, suppliers and the communities in which the Company and its subsidiaries conduct its business. Although Globaltrans is controlled by its immediate parent company, Transportation Investments Holding Ltd (which owns a 50.1% share in the Company), the Group endeavours to ensure that the investments of minority shareholders are fairly represented through the representation of Independent Directors.

The Nomination Committee reviews the size and composition of the Board on an annual basis, and considers that the present size and composition is appropriate for the current scope and nature of the Group's operations. At the Company's Annual General Meeting on 13 May 2011, all Directors were duly re-elected.

The Company separates the positions of Chairman and Chief Executive Officer (CEO) 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 keeping the Board properly informed and consulted on all decisions reserved to it.
- The CEO, 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.

The Board's performance in 2011

The Board meets at least four times a year. Fixed meetings are scheduled at the start of each year, while 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.

Board activities in 2011

In 2011 the Board met formally 14 times to review current performance and to discuss and approve important business decisions. Matters considered by the Board during the year included:

Regular meetings

- Review of the operating and financial performance of the Group
- Approval of the annual budget
- Approval of the annual and semi-annual financial statements and the respective regulatory announcements
- Review of the results of risk assessments
- Approval of the AGM agenda, including dividend proposals and Board reappointments

Ad-hoc meetings

- Approval of the investment programme into the acquisition of 10,000 units of rolling stock, to be completed by the end of 2012. (For more information, please refer to the CEO's review on pages 12-15)
- Approval of the acquisition of non-controlling interests in subsidiaries
- Recommendation to the Extraordinary General Meeting to approve the acquisition of shares in the Company
- Approval of material borrowings by subsidiaries and provision of the intra-group guarantees

Board evaluation

The performance of the Board is subject to annual assessment. The evaluation process is conducted through a mixture 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 and management remuneration

Directors serve on the Board pursuant to the letters of appointment. 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, the 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 13 May 2011.

Please refer to Note 30 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 members of the key management.

Dealings in securities

The Company has adopted an internal code of practice on dealings in the listed securities (including global depositary receipts) 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. Officers are also prohibited from dealing in the Group's securities on short-term considerations.

The attendance of Directors during 2011 is set out in the table below.

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Alexander Eliseev	14	5	–	–	2	2	–	–
Michael Zampelas	14	14	2	2	2	2	6	6
Johan Franz Durrer	14	14	2	2	2	2	–	–
Sergey Maltsev	14	10	–	–	–	–	–	–
Mikhail Loganov	14	14	2	2	–	–	–	–
Elia Nicolaou	14	14	–	–	–	–	6	6
Konstantin Shirokov	14	14	–	–	–	–	–	–

The Board Committees

The Board has delegated specific responsibilities to three Committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. 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, among 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 six times in 2011, including three meetings attended by the external auditors of the Company. The principal issues that were considered during 2011 were:

- Review of the external auditor's letter to the Audit Committee following its full-year audit for 2010;
- Review of the financial statements of the Company and consolidated financial statements of the Group for the 2010 and interim financial results for the first six months of 2011, including significant financial reporting judgements made by management. The Committee recommended approval of the same to the Board;
- Review of the terms of appointment of the external auditor of the Company for the year 2011. The Committee recommended reappointment to the Board, which, in turn, proposed the reappointment of the external auditors to the Annual General Meeting of shareholders of the Company;
- Oversight of the reporting process and review of the audit plan;
- Review of regulatory announcements of the Group of a financial nature;
- Review of internal controls and risk management processes;
- Review of the internal audit function, internal audit model and plan and reports on activities of the internal audit function.

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.

The Company has a formal policy on the assessment of the independence and objectivity of the external auditor. This policy regulates the terms of appointment of the external auditor and the nature of audit and permitted non-audit services provided to the Company. External auditors provide written confirmation to the Committee on a periodic basis (at least annually) that, in their professional judgement, they are independent of the Group. The Committee is satisfied that the independence and objectivity of the external auditors is not impaired, and that the external audit process remains effective.

Nomination Committee

The Nomination Committee comprises three Directors and meets at least once a 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 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 2011. The principal issues considered during the meetings were the review of the Annual Report for the year 2010 and the current composition of the Board and its Committees. It has also provided recommendations to the Board on the re-nomination of Directors prior to the Annual General Meeting of shareholders, which considered the reappointment of Directors in 2011.

Remuneration Committee

The Remuneration Committee comprises three Directors and meets at least once a year. The Remuneration Committee is chaired by Dr. Durrer, and the other members are Mr. Zampelas and Mr. Eliseev. The Committee's responsibility is the determination and review of, among other matters, the remuneration of Executive Directors, and the 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 2011 to discuss and consider the appropriateness of the level of remuneration of the Executive Directors of the Company and the 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. Every year, the Board reviews and considers the risk register for the 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 has delegated to the CEO 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 that 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 that 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 the 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 identifying and preparing 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 and provide reasonable assurance regarding the achievement of those 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. All Group staff 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.

Internal Control

The Board has a primary responsibility for establishing a framework of prudent and effective controls that enables risks to be assessed and managed. The Audit Committee assists the Board in discharging this responsibility by reviewing and assessing the Group's internal controls and risk management process. The system of controls is designed to manage rather than eliminate the risks relevant to the Group's operations and, therefore, can only provide reasonable, and not absolute, assurance against material errors, losses, fraud or breaches of laws and regulations.

Internal Audit

The Internal Audit function is carried out internally by the Group's Internal Audit Service ("IAS"). IAS is responsible for testing the systems of risk management, internal control and corporate governance 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;
- The 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 applicable laws.

The internal audit plan is approved annually by the Audit Committee and is developed by identifying the audit universe, performing a risk analysis, and obtaining input from management relative to risks, controls and governance processes. The internal auditor regularly reports to the Audit Committee on the progress of the planned audits. If any material internal control deficiencies are identified, these are communicated to the Audit Committee, and consequently to the Board, at once.

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 2011" of this Annual Report.

Board of Directors

The Board includes a mix of Executive Directors, Non-Executive Directors and Independent Directors to ensure effective governance

Sergey Maltsev
Chief Executive Officer, member of the Board, Executive Director

Sergey Maltsev co-founded Globaltrans and is one of the instrumental players in the development of the private freight rail market in Russia. He has served as CEO and member of the Group's Board of Directors since 2008. Mr. Maltsev is a third-generation railwayman and has spent more than 25 years working in the rail sector. He has been recognised for his contribution to the development of the rail industry by being made an 'Honored Railwayman of Russia'. Mr. Maltsev has served as Chairman of the presidium of the non-profit partnership 'Council of Railway Operators Market'.

EXECUTIVE DIRECTORS

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

Mikhail Loganov has served as an Executive member of the Board and as a member of the Nomination Committee since March 2008. He joined the Group in June 2004 as a finance manager at Globaltrans subsidiary Sevtekhnotrans.
He graduated from the University of Brighton in the UK, with a BA honours degree in Business Studies with Finance. Prior to joining the Group, he worked as a financial analyst for American Express (Europe) Ltd. He also holds the position of Non-Executive member of the Board of Directors of Global Ports Investments PLC.

Konstantin Shirokov
Member of the Board, Executive Director

Konstantin Shirokov has served as an Executive member of the Board and has been the Company's Internal Auditor since March 2008. He has more than eight years of management experience in a number of major companies. 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 in the UK. Prior to joining Globaltrans, Mr. Shirokov worked in senior finance roles at Mechel and worked as an economist at Glencore International.

NON-EXECUTIVE DIRECTORS

Alexander Eliseev
Chairman of the Board, Non-Executive Director

Alexander Eliseev co-founded Globaltrans with Sergey Maltsev 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, which are both subsidiaries of Globaltrans. Mr. 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 the Remuneration and Nomination Committees

Michael Zampelas 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 both the Remuneration and Nomination Committees. Mr. Zampelas has more than 30 years of management experience, including as founding member, Chairman and Managing Partner of accountancy firm Coopers & Lybrand (which later became PricewaterhouseCoopers).

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

Dr. Johann Franz Durrer was appointed as an Independent Non-Executive Director in March 2008 and is Chairman of the Remuneration and Nomination Committees. 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 1970, Dr. Durrer founded Fidura Treuhand AG, which provides book-keeping, auditing and financial services. He is a Board member of the transport company IMT-Dienst AG and is also 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 became a Non-Executive Director of the Board in 2008 and is a member of the Audit Committee. She is currently the Managing Director of Amicorp (Cyprus) Ltd. Ms. Nicolaou gained an LLB in Law from the University of Nottingham in the UK before gaining an LLM in Commercial and Corporate Law from University College London. She has an MBA from the Cyprus International Institute of Management. Previously, she was Head of the Corporate Legal Department at Polakis Sarris LLC and a lawyer at C. Patsalides LLC. She sits on various boards of the Cyprus Chamber of Commerce.

Corporate social responsibility

Developing our people and supporting the communities in which we operate is a key pillar of our strategy

The vision we have set out is to be the leading private freight rail group in Russia. In doing so, we aim to be the partner of choice for our customers and, in the process, create long-term value for our shareholders. We understand that acting responsibly in all aspects of our operations is likely to contribute to the success of the Company.

Accordingly, we are committed to operating with high standards of corporate social responsibility and we strive to treat our stakeholders and the wider society in a way that we believe is fair and ethical. As part of our strategy of social development and investment, we have implemented several key programmes across the Group.

People

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

To achieve this, the companies in the Group actively invest in staff development, giving their employees opportunities to enhance their professional skills and advance their careers. We seek to 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 also maintain a mentoring system, which seeks to ensure continual exchange of knowledge and sharing of experience between senior and junior staff. In addition, we seek to reward the best performing employees with a motivation and reward system we believe to be one of the most competitive in the marketplace. In doing so, and coupled with the Company's benefit packages, we endeavour to ensure a positive corporate culture and a happy, content workforce.

Health and safety

Globaltrans is committed to operating high standards of health and safety, designed to minimise injury and ill health to employees. This regard for safety, which extends to anyone coming into contact with the Group, is aimed at meeting or exceeding all current legal and industry requirements. To ensure this is the case, regular assessments are carried out to ensure compliance with the Group's health and safety procedures.

Community

In 2011, the companies of the Group continued to participate in charity projects aimed at cultural and spiritual heritage preservation, supporting cultural initiatives and social projects in areas such as child health and aiding those in vulnerable circumstances. Globaltrans also supports a number of cultural and public entertainment initiatives aimed at promoting a healthy way of life. For example, the Group's subsidiaries have for several years supported and assisted orphanages in a number of regions of Russia. The Group also provides regular support to pre-school educational institutions for underprivileged children and actively participates in a number of social and medical rehabilitation programmes.

Environment

Globaltrans is not aware its operations create any potential environmental liabilities and believes it is in compliance with all current environmental legislation.

We seek to provide our employees with an entrepreneurial and creative corporate culture.

Appendix 1

Directors' report and consolidated financial statements for the year ended 31 December 2011

Contents

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
Alternate director: Ms. Ekaterina Golubeva

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
Alternate director: Mr. Konstantin Tserekh

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

Ms. Elia Nicolaou
Non-executive Director
Member of the Audit Committee
Alternate director: Mr. Marios Tofaros

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

Assistant secretary: Mr. Marios Tofaros

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 2011. 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 2011 was US$317,226 thousand (2010: US$225,940 thousand). On 31 December 2011 the total assets of the Group were US$1,467,848 thousand (2010: US$1,515,341 thousand) and net assets were US$989,055 thousand (2010: US$883,965 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 28 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 9 and 10. 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 2011.

In May 2011 the shareholders of the Company approved the payment of the final dividend in respect of 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.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of issued shares (excluding treasury shares) as of the date of this report.

Share capital

As at 31 December 2011 and 31 December 2010 the authorised share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

Report of the Board of Directors continued

As at 31 December 2011 and 31 December 2010 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share.

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 judgement with a view to the best interests of the Group, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2011 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 2011.

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 2011 amounted to US$397 thousand (2010: US$384 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 2011 and 31 December 2010 are shown below:

Name	Type of holding	**2011**	2010
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**11,658,456**	11,658,456
Johann Franz Durrer	Holding of GDRs	**100,000**	100,000

Total number of issued shares of the Company as at 31 December 2011 and 31 December 2010 was 158,135,533.

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 31 to the consolidated financial statements.

Board performance

The Board held 14 meetings in 2011. The Directors' attendance is presented in the table below.

Name	Attended
Alexander Eliseev	5
Michael Zampelas	14
Johann Franz Durrer	14
Sergey Maltsev	10
Mikhail Loganov	14
Elia Nicolaou	14
Konstantin Shirokov	14

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

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

Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. As such, all employees are required to comply with these guidelines and the Group's management team takes responsibility 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 supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the 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 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 13 May 2011.

Refer to Note 30 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 eleven branches and seventeen representative offices during 2011 (one of the representative offices was converted into a branch in 2011), ten branches and eighteen representative offices during 2010.

Report of the Board of Directors continued

Treasury shares

During the year ended 31 December 2011 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. On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. The shares will be held as treasury shares for a maximum period of two years.

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 2012, 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, 11 April 2012

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 9 to 53) and report of the Board of Directors (pages 2 to 5) 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 accompanying consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2011, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 basis for our audit opinion.

Independent Auditor's Report continued

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, 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 European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 Cyprus 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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

Vasilis Hadjivassiliou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 11 April 2012

Consolidated income statement
for the year ended 31 December 2011

	Note	**2011 US$’000**	2010 US$’000
Revenue	5	**1,733,056**	1,382,670
Cost of sales	6	**(1,210,827)**	(981,428)
Gross profit		**522,229**	401,242
Selling and marketing costs	6	**(3,088)**	(2,692)
Administrative expenses	6	**(90,317)**	(72,225)
Other gains – net	7	**3,140**	3,048
Operating profit		**431,964**	329,373
Finance income	9	**7,362**	7,203
Finance costs	9	**(39,935)**	(53,109)
Finance costs – net	9	**(32,573)**	(45,906)
Share of profit of associates	14	**428**	206
Profit before income tax		**399,819**	283,673
Income tax expense	10	**(82,593)**	(57,733)
Profit for the year		**317,226**	225,940
Attributable to:			
Owners of the Company		**266,423**	177,322
Non-controlling interests		**50,803**	48,618
		317,226	225,940
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	**1.68**	1.12

The notes on pages 14 to 53 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the year	**317,226**	225,940
Other comprehensive income:		
Currency translation differences	**(58,599)**	(10,417)
Other comprehensive loss for the year, net of tax	**(58,599)**	(10,417)
Total comprehensive income for the period	**258,627**	215,523
Total comprehensive income attributable to:		
– owners of the Company	**216,917**	167,598
– non-controlling interests	**41,710**	47,925
	258,627	215,523

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 53 are an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2011

	Note	2011 US$'000	2010 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**1,106,171**	1,112,212
Intangible assets	13	**150**	331
Trade and other receivables	18	**75,777**	64,365
Investment in associate	14	**1,845**	1,494
Total non-current assets		**1,183,943**	1,178,402
Current assets			
Inventories	19	**8,002**	6,918
Trade and other receivables	18	**150,955**	184,358
Current income tax assets		**4,191**	7,960
Cash and cash equivalents	20	**120,757**	137,703
Total current assets		**283,905**	336,939
TOTAL ASSETS		**1,467,848**	1,515,341
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		**(139,787)**	(90,281)
Capital contribution		**90,000**	90,000
Retained earnings		**639,283**	485,575
Total equity attributable to the owners of the Company		**858,061**	753,859
Non-controlling interests		**130,994**	130,106
Total equity		**989,055**	883,965
Non-current liabilities			
Borrowings	24	**208,381**	327,890
Trade and other payables	26	**–**	10,467
Deferred tax liabilities	25	**35,247**	32,430
Total non-current liabilities		**243,628**	370,787
Current liabilities			
Borrowings	24	**170,731**	191,149
Trade and other payables	26	**63,959**	67,203
Deferred gains	23	**–**	150
Current tax liabilities		**475**	2,087
Total current liabilities		**235,165**	260,589
TOTAL LIABILITIES		**478,793**	631,376
TOTAL EQUITY AND LIABILITIES		**1,467,848**	1,515,341

On 11 April 2012 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 53 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2011

		Attributable to the owners of the Company								
	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve 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 2010		15,814	621,227	(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 to owners of the Company	22	–	–	–	–	–	(24,000)	(24,000)	–	(24,000)
Dividends to non-controlling interests	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 2010/1 January 2011		15,814	621,227	(368,476)	(90,281)	90,000	485,575	753,859	130,106	883,965
Comprehensive income										
Profit for the year		–	–	–	–	–	266,423	266,423	50,803	317,226
Other comprehensive loss										
Currency translation differences		–	–	–	(49,506)	–	–	(49,506)	(9,093)	(58,599)
Total comprehensive income for 2011		–	–	–	(49,506)	–	266,423	216,917	41,710	258,627
Transactions with owners of the Company										
Dividends to owners of the Company	22	–	–	–	–	–	(58,510)	(58,510)	–	(58,510)
Dividends to non-controlling interests	22	–	–	–	–	–	–	–	(24,915)	(24,915)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	(58,510)	(58,510)	(24,915)	(83,425)
Acquisition of non-controlling interests in subsidiaries	15	–	–	–	–	–	(54,205)	(54,205)	(15,907)	(70,112)
Total transactions with owners of the Company		–	–	–	–	–	(112,715)	(112,715)	(40,822)	(153,537)
Balance at 31 December 2011		15,814	621,227	(368,476)	(139,787)	90,000	639,283	858,061	130,994	989,055

The notes on pages 14 to 53 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Profit before tax		**399,819**	283,673
Adjustments for:			
Depreciation of property, plant and equipment	12	**75,052**	63,017
Amortisation of intangible assets	13	**179**	173
Loss on sale of property, plant and equipment	12	**1,244**	2,041
Amortisation of financial guarantees	9	**–**	(961)
Reversal of impairment charge on property, plant and equipment	12	**(172)**	(650)
Interest and other finance income	9	**(7,362)**	(6,242)
Interest expense	9	**36,726**	43,656
Share of profit of associates	14	**(428)**	(206)
Exchange losses on financing activities	9	**2,046**	7,450
Recognised deferred gain	7	**(156)**	(333)
Finance cost on liability for minimum dividend distribution	9	**1,163**	2,003
Changes in working capital:		**508,111**	393,621
Inventories		**(1,586)**	(1,101)
Trade and other receivables		**3,748**	(79,319)
Trade and other payables		**(5,074)**	10,054
Cash generated from operations		**505,199**	323,255
Tax paid		**(63,441)**	(34,306)
Net cash from operating activities		**441,758**	288,949
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired		**–**	(7,013)
Loans repayments received from third parties		**–**	17
Purchases of property, plant and equipment		**(173,941)**	(299,822)
Proceeds from disposal of property, plant and equipment	12	**4,526**	185
Proceeds from sale of assets classified as held for sale		**–**	2,636
Interest received		**7,317**	6,558
Receipts from finance lease receivable		**35,925**	4,472
Net cash used in investing activities		**(126,173)**	(292,967)
Cash flows from financing activities			
Proceeds from borrowings		**112,156**	437,279
Repayments of borrowings		**(179,401)**	(246,981)
Finance lease principal payments		**(58,630)**	(119,218)
Interest paid		**(36,519)**	(43,576)
Acquisitions of non-controlling interests	15	**(81,700)**	–
Contributions from non-controlling interests	15	**–**	28
Dividends paid to Company's shareholders	22	**(58,510)**	(24,000)
Dividends paid to non-controlling interests	22	**(26,078)**	(21,157)
Net cash used in financing activities		**(328,682)**	(17,625)
Net decrease in cash and cash equivalents		**(13,097)**	(21,643)
Exchange losses on cash and cash equivalents		**(4,141)**	(492)
Cash, cash equivalents and bank overdrafts at beginning of year	20	**136,958**	159,093
Cash, cash equivalents and bank overdrafts at end of year	20	**119,720**	136,958

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 14 to 53 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

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.

Approval of the consolidated financial statements

These Group consolidated financial statements were authorised for issue by the Board of Directors on 11 April 2012.

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 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 2011	2010
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	60	50
RemTransServis, OOO	Subsidiary	Russia	Repair and maintenance of rolling stock	59.4	49.5
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	60	55.56
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	60	50
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	65.25	61
Hoover SIA*	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)	–	61
Ekolinja Oy	Subsidiary	Finland	Operating sub-lease of rolling stock	65.25	61
Spacecom Trans AS	Subsidiary	Estonia	Operating lease of rolling stock	65	65

*Liquidated.

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 2011 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.

Notes to the consolidated financial statements continued

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 2011:

- **Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 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. As a result of the revised standard, the Group now also discloses contractual commitments to purchase and sell goods or services to its related parties. This amendment was adopted previously by the Group in its prior year's 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 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 the 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 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").
- **Other revised standards and interpretations effective for the current period.** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any 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: Classification and Measurement*.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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.
– Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, 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 endorsement of the standard by the European Union.

- **IFRS 10, Consolidated Financial Statements*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation – special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. 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 endorsement of the standard by the European Union.
- **IFRS 12, Disclosure of Interest in Other Entities*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities The Group expects the new standard to have an impact on disclosures of interest in other entities but no impact on the measurement of interests in other entities. The timing of its adoption by the Group is subject to endorsement of the standard by the European Union.
- **IFRS 13, Fair value measurement*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. 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 endorsement of the standard by the European Union.
- **IAS 27, Separate Financial Statements*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the amendment by the European Union.
- **Amendments to IAS 1, Presentation of Financial Statements*, (issued in June 2011, effective for annual periods beginning on or after 1 July 2012)**, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

Notes to the consolidated financial statements continued

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

- **IAS 28, Investments in Associates and Joint Ventures*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment is not expected to have an impact on the Group's financial statements. The amendment is subject to endorsement by the European Union.
- **IFRS 11, Joint Arrangements*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendment is not expected to have an impact on the Group's consolidated financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **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.
- **Amended IAS 19, Employee Benefits*, (issued in June 2011, effective for periods beginning on or after 1 January 2013)**, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect that the adoption of this amendment will have any impact on the financial statements as the Group does not operate any defined benefit pension plans. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*, (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Disclosures—Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*, (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments. The timing of the adoption of the amendment by the Group is subject to endorsement of the amendment by the European Union.
- **Amendment to IAS 12 "Income Taxes"* on deferred tax relating to recovery of underlying assets, (issued in September 2010 and effective for annual periods beginning on or after 1 January 2012).** IAS 12 "Income Taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income taxes – recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards"* on severe hyperinflation and removal of fixed dates for First Time Adopters, (issued in August and September 2010 and effective for annual periods beginning on or after 1 July 2011).** These amendments include two changes to IFRS 1 "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”*, (issued in October 2011 and effective for annual period beginning on or after 1 January 2013).** IFRIC 20, ‘Stripping costs in the production phase of a surface mine’, sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Amendments to IFRS 1 “First–time adoption of International Financial Reporting Standards” on the application of IFRS 9 “Financial Instruments” and IAS 20 “Accounting for Government Grants and Disclosure on Government Assistance”*, (issued in March 2013 and effective for annual periods beginning on or after 1 January 2013).** The IASB has amended IFRS 1, ‘First-time adoption of International Financial Reporting Standards’ to provide relief from the retrospective application of IFRSs in relation to government loans. The new exception requires first-time adopters to apply the requirements in IFRS 9, ‘Financial instruments’, and IAS 20, ‘Accounting for government grants and disclosure of government assistance’, prospectively to government loans that exist at the date of transition to IFRSs. The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, ‘Financial instruments: Presentation’, to determine whether government loans are classified as equity or as a financial liability. The Group does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement by the European Union.

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.

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 consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, equity instruments issued by the Group and liabilities incurred to the former owners of the acquiree. 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. 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 identifiable 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.

Notes to the consolidated financial statements continued

b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners in their capacity as equity owners of the Group. For purchases from non-controlling interests, the difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, 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. The Group's investment in associates includes goodwill identified on acquisition. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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 with a corresponding adjustment to 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are 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 recognises 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 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.

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

Notes to the consolidated financial statements continued

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 Ruble (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 or valuations where items are re-measured. 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 the end of each reporting period.

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 collateralised borrowing.

Notes to the consolidated financial statements continued

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.

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 recognised 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. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or re-issued. Where such ordinary shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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.

Notes to the consolidated financial statements continued

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 in the period in which they are incurred.

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 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.

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.

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 programme 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 Rubles. 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 Rubles. However, as the US dollar interest rates continue to be relatively attractive compared to the Russian Ruble interest rate, a portion of the Group's long-term borrowings continue to be in US dollars.

During 2010 the Russian Ruble 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. During 2011 the Russian Ruble has weakened against the US dollar, which resulted in further foreign exchange losses for the Group for the year ended 31 December 2011. Such losses were minimised due to lower net US dollar denominated liabilities as of the end of 2011 compared to 2010. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Ruble, 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, which is the functional currency of the Estonian subsidiaries and US dollar and the Ukrainian Hryvna, which is the fuctional currency of the Ukrainian subsidiary of the Group.

The carrying amounts of monetary assets, liabilities and capital commitments denominated in US dollars as at 31 December 2011 and 31 December 2010 are as follows:

	2011 US$'000	2010 US$'000
Assets	**73,802**	83,716
Liabilities	**84,644**	115,235

Notes to the consolidated financial statements continued

Had US dollar exchange rate strengthened/weakened by 15% against the Russian Ruble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have increased/decreased by US$6,358 thousand (2010: 10% change, effect US$1,787 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 Ruble being their functional currency. Profit was more sensitive to fluctuations of the exchange rate of Russian Ruble to US dollar for the year ended 31 December 2011 compared to 2010 mainly due to the decrease of the proportion of US dollar denominated borrowings as at the end of 2011 (Note 24) combined with the increase of the proportion of US dollar denominated cash and cash equivalents as at the end of 2011.

Had US dollar exchange rate strengthened/weakened by 15% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have decreased/increased by US$4,586 thousand (2010: 10% change, effect US$3,323 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 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 2011 due to decrease in borrowings of the Estonian subsidiaries of the Group.

Had US dollar exchange rate strengthened/weakened by 15% against the Ukrainian Hryvna and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2011, would have decreased/increased by US$2,840 thousand (2010: 10% change, effect US$127 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of borrowings denominated in US dollars for the Ukrainian subsidiary of the Group. Profit more sensitive to fluctuations of the exchange rate of Ukrainian Hryvna to US dollar for the year ended 31 December 2011 due to increase in US dollar denominated borrowings of the Ukrainian subsidiary 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 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 maximising the estimated future profit.

Had US dollar, Euro and Russian Ruble 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$412 thousand for the year ended 31 December 2011 (2010: US$2,443 thousand).

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 and other 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 71.62% of the Group's trade and other receivables (excluding prepayments and finance lease receivables as at 31 December 2011 (2010: 63.63%)).

These figures include trade and other receivables arising from business with related parties which account for 27.40% as at 31 December 2011 (2010: 19.99%).

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 2011 and 31 December 2010:

	Fully performing US$'000	Past due US$'000	Impaired US$'000	Impairment provision US$'000	**Total US$'000**
As of 31 December 2011					
Trade receivables	35,907	16,307	1,467	(1,467)	**52,214**
Other receivables	823	231	406	(406)	**1,054**
	36,730	16,538	1,873	(1,873)	**53,268**
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**

Note: 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$48,740 thousand as at 31 December 2011 (2010: US$76,350 thousand).

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$112,464 thousand for 2011 (2010: US$68,667 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 2011 and 31 December 2010. 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**
31 December 2011								
Borrowings	15,536	30,352	67,243	81,424	94,798	138,477	2,442	**430,272**
Trade and other payables	11,582	412	125	125	–	–	–	**12,243**
	27,118	30,764	67,368	81,549	94,798	138,477	2,442	**442,515**
31 December 2010								
Borrowings	16,924	27,796	54,595	127,579	162,593	202,479	6,298	**598,624**
Trade and other payables	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**

Note: statutory liabilities are excluded as the analysis is provided for financial liabilities only. Trade and other payables as of 31 December 2010 include liability for the minimum distribution of 25% of the distributable profits of LLC BaltTransServis to non-controlling shareholder of that subsidiary. 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. Such liability was extinguished in 2011 when such non-controlling interest was acquired by the Group (Note 15).

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.

Notes to the consolidated financial statements continued

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 2011 and 31 December 2010 are as follows:

	2011 US$'000	2010 US$'000
Total borrowings	**379,112**	519,039
Total capitalisation	**1,237,173**	1,272,898
Total borrowings to total capitalisation ratio (percentage)	**30.64%**	40.78%

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 2011 and 2010. 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.

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 28).

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

i) Revenue recognition

Operator's services are rendered using own or leased rolling stock. 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$556,030 thousand for the year ended 31 December 2011 (US$479,671 thousand for the year ended 31 December 2010).

The above include contracts with several customers where the Group amended the terms in 2011. Under the legal form of these contracts the Group now acts as an agent in respect of Russian Railway tariff and recharges it to its customers. Management believes that despite the change of legal form of the contracts the substance of the relationship with the customers remained unchanged and the Group continues to act as a principal, because the Group's customers do not interact with Russian Railways, 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 Russian Railways tariff to bring the rolling stock back or to the next destination. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff is included in cost of sales. Had the Russian Railways loaded trip tariff directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by US$523,442 thousand for the year ended 31 December 2011.

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 (open wagons, tank cars, 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 the 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.

Notes to the consolidated financial statements continued

	Open wagons US$'000	Tank cars US$'000	All other segments US$'000	Total US$'000
Year ended 31 December 2011				
Total revenue – operator's services	624,608	1,009,572	17,615	1,651,795
Total revenue – operating lease	11,577	62,810	2,168	76,555
Inter-segment revenue	–	–	–	–
Revenue (from external customers)	636,185	1,072,382	19,783	1,728,350
less Infrastructure and locomotive tariffs – loaded trips	(5,188)	(549,036)	(1,806)	(556,030)
Adjusted revenue for reportable segments	630,997	523,346	17,977	1,172,320
Depreciation and amortisation	(41,690)	(26,910)	(2,526)	(71,126)
Reversal of impairment charge on property, plant and equipment	–	–	172	172
Additions to non-current assets (included in reportable segment assets)	81,244	36,781	192	118,217
Reportable segment assets	638,429	415,416	29,290	1,083,135
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

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

	2011 US$'000	2010 US$'000
Adjusted revenue for reportable segments	**1,172,320**	900,581
Other revenues	**4,706**	2,418
Total adjusted revenue	**1,177,026**	902,999
Cost of sales (excl. Infrastructure and locomotive tariffs – loaded trips, impairments and depreciation of property, plant and equipment)	**(580,978)**	(440,368)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(92,219)**	(72,465)
Depreciation	**(75,052)**	(63,017)
Impairment reversal/(charge)	**47**	(824)
Other gains – net	**3,140**	3,048
Operating profit	**431,964**	329,373
Finance income	**7,362**	7,203
Finance costs	**(39,935)**	(53,109)
Share of profit of associates	**428**	206
Profit before income tax	**399,819**	283,673

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

	2011		2010	
	Assets US$'000	**Liabilities US$'000**	Assets US$'000	Liabilities US$'000
Segment assets/liabilities	**1,083,135**	**–**	1,095,980	–
Unallocated:				
Deferred tax	**–**	**35,247**	–	32,430
Current income tax	**4,191**	**475**	7,960	2,087
Investment in associates	**1,845**	**–**	1,494	–
Inventories	**8,002**	**–**	6,918	–
Intangible assets	**150**	**–**	331	–
Current borrowings	**–**	**170,731**	–	191,149
Non current borrowings	**–**	**208,381**	–	327,890
Deferred gains	**–**	**–**	–	150
Property, plant and equipment	**23,036**	**–**	16,232	–
Receivables	**226,732**	**–**	248,723	–
Payables	**–**	**63,959**	–	77,670
Cash and cash equivalents	**120,757**	**–**	137,703	–
Total	**1,467,848**	**478,793**	1,515,341	631,376

Geographic information

Revenues from external customers

	2011 US$'000	2010 US$'000
Revenue		
Russia	**1,663,637**	1,325,323
Estonia	**29,691**	32,765
Finland	**32,698**	24,257
Ukraine	**7,030**	325
	1,733,056	1,382,670

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:

	2011		2010	
	US$'000	**% revenue**	US$'000	% revenue
Revenue				
Customer A	**577,805**	**33**	496,503	36

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

	2011 US$'000	2010 US$'000
Non-current assets		
Russia	**982,229**	977,581
Estonia	**174,681**	164,212
Ukraine	**25,151**	2,439
Latvia	**1,845**	1,494
Cyprus	**37**	36
	1,183,943	1,145,762

Notes to the consolidated financial statements continued

Analysis of revenue by category

	2011 US$'000	2010 US$'000
Railway transportation – operator's services (tariff borne by the Group)	**929,945**	810,661
Railway transportation – operator's services (tariff borne by the client)	**721,850**	499,052
Railway transportation – freight forwarding	**3,422**	1,858
Operating lease of rolling stock	**76,555**	70,539
Other	**1,284**	560
Total revenue	**1,733,056**	1,382,670

Note: Revenue from railway transportation – operator's services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2011 amounting to US$556,030 thousand (for the year ended 31 December 2010: US$479,671 thousand)

6. EXPENSES BY NATURE

	2011 US$'000	2010 US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**556,030**	479,671
Empty run trips, other tariffs and services provided by other transportation organisations	**299,384**	232,586
Operating lease rentals – rolling stock	**132,570**	87,469
Employee benefit expense	**19,561**	13,412
Repair and maintenance	**76,243**	63,673
Depreciation of property, plant and equipment	**73,991**	62,039
Amortisation of intangible assets	**179**	173
Fuel and spare parts – locomotives	**27,708**	21,261
Engagement of locomotive crews	**12,684**	11,296
Loss on sale of property, plant and equipment	**1,314**	2,158
Reversal of impairment charge for property, plant and equipment	**(172)**	(650)
Other expenses	**11,335**	8,340
	1,210,827	981,428

	2011 US$'000	2010 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**1,061**	978
Gain on sale of property, plant and equipment	**(70)**	(117)
Employee benefit expense	**42,622**	33,028
Impairment charge of receivables	**125**	1,474
Operating lease rental – office	**4,820**	4,362
Auditors' remuneration	**1,362**	1,262
Legal, consulting and other professional fees	**9,341**	3,298
Advertising and promotion	**554**	570
Communication costs	**1,122**	1,078
Information services	**1,637**	1,385
Taxes (other than income tax and value added taxes)	**19,533**	16,141
Other expenses	**11,298**	11,458
	93,405	74,917

	2011 US$'000	2010 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**75,052**	63,017
Amortisation of intangible assets (Note 13)	**179**	173
Loss on sale of property, plant and equipment (Note 12)	**1,244**	2,041
Employee benefit expense (Note 8)	**62,183**	46,440
Impairment charge for receivables (Note 18)	**125**	1,474
Reversal of impairment charge for property, plant and equipment	**(172)**	(650)
Operating lease rentals – rolling stock	**132,570**	87,469
Operating lease rentals – office	**4,820**	4,362
Repairs and maintenance	**76,243**	63,673
Fuel and spare parts – locomotives	**27,708**	21,261
Engagement of locomotive crews	**12,684**	11,296
Infrastructure and locomotive tariffs:		
Loaded trips	**556,030**	479,671
Empty run trips, other tariffs and services provided by other transportation organisations	**299,384**	232,586
Auditors' remuneration	**1,362**	1,262
Legal, consulting and other professional fees	**9,341**	3,298
Advertising and promotion	**554**	570
Communication costs	**1,122**	1,078
Information services	**1,637**	1,385
Taxes (other than income tax and value added taxes)	**19,533**	16,141
Other expenses	**22,633**	19,798
Total cost of sales, selling and marketing costs and administrative expenses	**1,304,232**	1,056,345

Note: The auditors' remuneration stated above include fees of US$457 thousand (2010: US$427 thousand) for audit services charged by the Company's statutory audit firm. The rest of the auditor's remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

7. OTHER GAINS – NET

	2011 US$'000	2010 US$'000
Other gains	**6,435**	2,801
Other losses	**(4,223)**	(292)
Recognised deferred gains	**156**	333
Net foreign exchange gains (Note 11)	**772**	206
Total other gains – net	**3,140**	3,048

Note: 'Other gains' include penalties receivable by the Group for the idle time of railcars payable by the Group's customers in accordance with the terms of the agreements for transportation services in the amount of US$4,611 thousand (2010: US$1,674 thousand). 'Other losses' include the amount of US$3,964 thousand recognised in relation to the claim brought by Eesti Raudtee (Estonian Railways) against the subsidiary of the Company the outcome of which was determined in 2011 net of the indemnification received by the parent company. This loss is wholly attributable to non-controlling interest (Note 28).

8. EMPLOYEE BENEFIT EXPENSE

	2011 US$'000	2010 US$'000
Wages and salaries	**33,758**	25,933
Bonuses	**22,996**	16,640
Social insurance costs	**5,429**	3,867
Total employee benefit expense	**62,183**	46,440
Average number of employees	**998**	944

Notes to the consolidated financial statements continued

9. FINANCE INCOME AND COSTS

	2011 US$'000	2010 US$'000
Interest expense:		
Bank borrowings	**(23,313)**	(24,951)
Non-convertible bond	**(8,424)**	(3,906)
Finance leases	**(4,325)**	(13,524)
Other interest – related parties (Note 30)	**–**	(348)
Other finance costs	**(664)**	(927)
Total interest expense	**(36,726)**	(43,656)
Net foreign exchange transaction losses on financing activities (Note 11)	**(2,046)**	(7,450)
Finance cost on liability for minimum dividend distribution	**(1,163)**	(2,003)
Finance costs	**(39,935)**	(53,109)
Interest income:		
Bank balances	**634**	320
Short term bank deposits	**2,498**	686
Finance leases	**4,230**	5,234
Loans to third parties	**–**	2
Total interest income	**7,362**	6,242
Amortisation of financial guarantees	**–**	961
Finance income	**7,362**	7,203
Net finance costs	**(32,573)**	(45,906)

Note: interest income from finance leases for the year ended 31 December 2011 includes additional finance income in the amount of US$1,914 thousand recognised as a result of the early termination of finance lease arrangement (Note 18).

10. INCOME TAX EXPENSE

	2011 US$'000	2010 US$'000
Current tax:		
Corporation tax	**70,484**	48,891
Withholding tax on dividends for which no deferred tax was recognised	**4,282**	1,860
Defence contribution	**1**	3
Total current tax	**74,767**	50,754
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**7,916**	6,979
Impact of change in the Ukrainian tax rate	**(90)**	–
Total deferred tax	**7,826**	6,979
Income tax expense	**82,593**	57,733

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

	2011 US$'000	2010 US$'000
Profit before tax	**399,819**	283,673
Tax calculated at domestic tax rates applicable to profits in the respective countries	**73,764**	50,459
Tax effects of:		
Expenses not deductible for tax purposes	**1,110**	1,305
Allowances and income not subject to tax	**(790)**	(85)
Utilisation of previously unrecognised tax losses	**–**	(34)
Tax losses for which no deferred tax asset was recognised	**–**	16
Re-measurement of deferred tax liability – change in the Ukrainian tax rate	**(90)**	–
Defence contribution	**1**	3
Withholding tax on dividends for which no deferred tax provision was recognised	**4,282**	1,860
Dividend withholding tax provision (Note 25)	**4,316**	4,209
Tax charge	**82,593**	57,733

The weighted average applicable tax rate was 18.4% in 2011 (2010: 17.8%). 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%. Under certain conditions, interest may be exempt from income tax and be subject to defence contribution at the rate of 10% for interest earned until 31 August 2011 and 15% thereafter. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013.

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 was taxed at a tax rate of 25% until 31 March 2011 and at a tax rate of 23% thereafter.

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:

	2011 US$'000	2010 US$'000
Net finance costs (Note 9)	**(2,046)**	(7,450)
Other gains – net (Note 7)	**772**	206
	(1,274)	(7,244)

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 2010						
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

Notes to the consolidated financial statements continued

	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 2011						
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
Additions	131,598	7	827	6	471	132,909
Disposals	(5,561)	–	(57)	–	(145)	(5,763)
Depreciation charge	(73,176)	(204)	(658)	–	(1,014)	(75,052)
Transfers	539	–	–	–	(539)	–
Reversal of impairment charge on property, plant and equipment	172	–	–	–	–	172
Currency translation differences	(58,036)	(77)	(89)	(1)	(104)	(58,307)
Closing net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171
At 31 December 2010						
Cost	1,415,495	2,480	3,471	7	5,456	1,426,909
Accumulated depreciation	(314,929)	(860)	(1,865)	–	(3,084)	(320,738)
Net book amount	1,100,566	1,620	1,606	7	2,372	1,106,171

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

	2011 US$'000	2010 US$'000
Net book amount	**5,763**	2,201
Loss on sale of property, plant and equipment (Note 6)	**(1,244)**	(2,041)
Consideration from sale of property, plant and equipment	**4,519**	160

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

	2011 US$'000	2010 US$'000
Cash consideration received within year	**4,526**	185
Movement in advances received in accounts payable for sales of property, plant and equipment	**(7)**	(25)
	4,519	160

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

	2011 US$'000	2010 US$'000
Cost – capitalised finance leases	**182,789**	259,634
Accumulated depreciation	**(45,356)**	(60,246)
	137,433	199,388

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

	2011 US$'000	2010 US$'000
Rolling stock	**137,288**	199,158
Motor vehicles	**145**	230
	137,433	199,388

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):

	2011 US$'000	2010 US$'000
Rolling stock	**303,894**	396,049

Depreciation expense of US$73,991 thousand in 2011 (2010: US$62,039 thousand) have been charged to "cost of sales" and US$1,061 thousand in 2011 (2010: US$978 thousand) have been charged to administrative expenses.

13. INTANGIBLE ASSETS

	Computer software US$'000	Total US$'000
At 1 January 2010		
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
Year ended 31 December 2011		
Opening net book amount	331	331
Amortisation charge (Note 6)	(179)	(179)
Currency translation differences	(2)	(2)
Closing net book amount	150	150
At 31 December 2011		
Cost	490	490
Accumulated amortisation and impairment	(340)	(340)
Net book amount	150	150

14. INVESTMENT IN ASSOCIATE

	2011 US$'000	2010 US$'000
At beginning of year	**1,494**	1,386
Share of profit after tax	**428**	206
Foreign exchange difference (loss)/gain	**(77)**	(98)
At end of year	**1,845**	1,494

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
2011 Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	6,484	3,490	8,472	428	25.27
2010 Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	5,009	3,515	7,054	206	25.27

15. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

a) Acquisition of non-controlling interests in subsidiaries

On 4 November 2011, the Company acquired 1,000 newly issued shares in its subsidiary, Ingulana Holdings Limited, for a total cash consideration of US$74,500 thousand, thereby increasing its holding in that company to 60%.

Notes to the consolidated financial statements continued

On 10 November 2011, Ingulana Holdings Limited acquired the remaining 10% of the issued shares of Ultracare Holdings Limited, a subsidiary of the Company which holds a 100% share in LLC BaltTransServis for a total cash consideration of US$74,500 thousand.

As a result of the above transactions the Group has effectively acquired 10% additional interest in LLC BaltTransServis and was released from an obligation for the minimum dividends distribution that it has recognised in 2009 in relation to future profits of Ultracare Holdings Limited and LLC BaltTransServis.

The carrying amount of non-controlling interest in Ultracare Holdings Limited and LLC BaltTransServis on the date of acquisition was US$10,834 thousand and the carrying amount of liability for the minimum dividends distribution on the date of the extinguishment of such liability was US$11,588 thousand. The Group derecognised non-controlling interests of US$10,834 thousand, liability for the minimum dividends distribution of US$11,588 thousand and recorded a decrease in retained earnings attributable to owners of the Company of US$52,078 thousand in respect of this acquisition.

On 1 December 2011, the Company acquired from its Parent entity 1,700 shares in AS Spacecom, representing 4.25% of the issued shares of that company for a total cash consideration of US$7,200 thousand. The carrying amount of the non-controlling interest on the date of acquisition was US$5,073 thousand. The Group derecognised non-controlling interests of US$5,073 thousand and recorded a decrease in retained earnings attributable to owners of the Company of US$2,127 thousand in respect of this acquisition.

There were no transactions with non-controlling interests in 2010.

16. FINANCIAL INSTRUMENTS BY CATEGORY

	2011		2010	
	Loans and receivables US$'000	**Total US$'000**	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet				
Trade and other receivables	**53,268**	**53,268**	93,925	93,925
Cash and cash equivalents	**120,757**	**120,757**	137,703	137,703
Total	**174,025**	**174,025**	231,628	231,628

Note: trade and other receivables do not include prepayments and taxes.

	2011		2010	
	Financial liabilities measured at amortised cost US$'000	**Total US$'000**	Financial liabilities measured at amortised cost US$'000	Total US$'000
Financial liabilities as per balance sheet				
Borrowings	**379,112**	**379,112**	519,039	519,039
Trade and other payables	**12,244**	**12,244**	29,607	29,607
Total	**391,356**	**391,356**	548,646	548,646

Note: trade and other payables do not include 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:

	2011 US$'000	2010 US$'000
Trade and other receivables		
Counterparties with external credit rating		
Fitch's (B+)	**–**	4,407
Moody's (A2)	**–**	2,828
Standard & Poor's (BBB-)	**7,806**	6,928
	7,806	14,163

	2011 US$'000	2010 US$'000
Counterparties without external credit rating		
Group 1	**28,092**	59,588
Group 2	**832**	1,208
	28,924	60,796
Total trade and other receivables	**36,730**	74,959

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

	Rating	2011 US$'000	2010 US$'000
Moody's[2]	Aaa – A1	**45,232**	38,466
Moody's[2]	Baa1 – B3	**59,516**	57,410
Standard & Poor's[3]	BBB+ – BBB-	**15,996**	41,796
Fitch[4]	B+ – B-	**–**	1
Other non-rated banks		**10**	27
Total cash at bank and bank deposits[1]		**120,754**	137,700

[1] The rest of the balance sheet item Cash and cash equivalents is cash on hand
[2] International rating agency Moody's Investors Service
[3] International rating agency Standard & Poor's
[4] International rating agency Fitch Rating

18. TRADE AND OTHER RECEIVABLES

	2011 US$'000	2010 US$'000
Trade receivables – third parties	**38,552**	42,980
Trade receivables – related parties (Note 30)	**15,129**	12,701
Less: Provision for impairment of trade receivables	**(1,467)**	(1,645)
Trade receivables – net	**52,214**	54,036
Other receivables	**1,427**	4,658
Other receivables – related parties (Note 30)	**33**	1
Less: Provision for impairment of other receivables	**(406)**	(676)
Other receivables – net	**1,054**	3,983
Prepayments – related parties (Note 30)	**2,848**	7,917
Prepayments – third parties	**116,558**	74,544
Finance lease receivables – third parties	**–**	35,906
VAT recoverable	**54,058**	72,337
	226,732	248,723

Notes to the consolidated financial statements continued

	2011 US$'000	2010 US$'000
Less non-current portion:		
Prepayments for property, plant and equipment	**75,777**	31,665
Finance lease receivables – third parties	**–**	32,637
VAT Recoverable	**–**	63
Total non-current portion	**75,777**	64,365
Current portion	**150,955**	184,358

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

In July 2011 the Group concluded an agreement for early termination of finance lease arrangement. The settlement of the finance lease receivable in the total amount of US$35,905 thousand was received in August 2011. As a result of the early termination the Group has recognised a gain in the amount of US$1,914 thousand included within 'finance income' (Note 9).

Non-current receivables as at 31 December 2011 represent prepayment for the acquisition of rolling stock which is due to be delivered until the end of March 2012.

Receivables amounting to US$36,730 thousand as of 31 December 2011 were fully performing (2010: US$74,959 thousand).

Receivables of US$16,538 thousand as of 31 December 2011 were past due but not impaired (2010: US$18,966 thousand). 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:

	2011 US$'000	2010 US$'000
Less than 1 month	**14,427**	17,346
From 1 to 3 months	**1,156**	1,032
From 3 to 6 months	**680**	303
From 6 months to 1 year	**156**	120
Over one year	**119**	165
	16,538	18,966

Trade receivables amounting to US$1,467 thousand as of 31 December 2011, were impaired and provided for in full (2010: US$1,645 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in an unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to US$406 thousand as of 31 December 2011, were impaired and provided for in full (2010: US$676 thousand). It was assessed that no portion of these receivables is expected to be recovered.

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

	2011 US$'000	2010 US$'000
Currency:		
US Dollars	**26,679**	68,737
Russian Rubles	**194,611**	175,361
Euro	**667**	3,834
Other	**4,775**	791
	226,732	248,723

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

	2011			2010		
	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	**1,645**	**676**	**2,321**	3,285	544	3,829
Provision for receivables impairment (Note 6)	**199**	**160**	**359**	1,233	249	1,482
Bad debt written off	**(174)**	**(312)**	**(486)**	(2,815)	(112)	(2,927)
Unused amounts reversed (Note 6)	**(130)**	**(104)**	**(234)**	(8)	–	(8)
Currency translation differences	**(73)**	**(14)**	**(87)**	(50)	(5)	(55)
At 31 December	**1,467**	**406**	**1,873**	1,645	676	2,321

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 2011				
Minimum lease receivable	–	–	–	–
Less: Unearned finance income	–	–	–	–
Present value of minimum lease receivables	–	–	–	–
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

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$nil (2010: US$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:

	2011 US$'000	2010 US$'000
Receivable within one year	**–**	3,269
Receivable later than one year and not later than 5 years	**–**	20,570
Receivable later than 5 years	**–**	12,067
Total	**–**	35,906

The average effective interest rate implicit in finance lease agreements at 31 December 2010 was 13.04%.

19. INVENTORIES

	2011 US$'000	2010 US$'000
Raw materials and consumables	**8,002**	6,918
	8,002	6,918

All inventories are stated at cost.

Notes to the consolidated financial statements continued

20. CASH AND CASH EQUIVALENTS

	2011 US$'000	2010 US$'000
Cash at bank and in hand	**84,252**	54,006
Short term bank deposits	**36,505**	83,697
	120,757	137,703

The effective interest rate on short-term deposits was 5.37% in 2011 (2010: 2.95%) and these deposits have a maturity of 10 to 32 days (2010: 11 to 30 days).

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

	2011 US$'000	2010 US$'000
Cash and cash equivalents	**120,757**	137,703
Bank overdrafts (Note 24)	**(1,037)**	(745)
Total cash and cash equivalents	**119,720**	136,958

The effective interest rate on bank overdrafts in 2011 was 2.19% (2010: 2.26%).

Cash and cash equivalents are denominated in the following currencies:

	2011 US$'000	2010 US$'000
Russian Ruble	**60,789**	96,685
US Dollar	**59,742**	38,535
Euro	**33**	130
Estonian Kroon	**–**	1,738
Ukrainian Hryvna	**193**	613
Swiss Francs	**–**	2
Total cash and cash equivalents	**120,757**	137,703

21. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2010 / 31 December 2010/ 31 December 2011	158,135,533	15,814	621,227	637,041

The total authorised number of ordinary shares at 31 December 2011 and 31 December 2010 was 233,918,128 shares with a par value of US$0.10 per share. All issued shares are fully paid.

22. DIVIDENDS

Dividends paid in 2011 and 2010 were US$58,510,147 (US$0.37 per share) and US$24,000,230 (US$0.15 per share) respectively.

At the Annual General Meeting which will take place in May 2012, a final dividend in respect of the profit for the year ended 31 December 2011 of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of shares issued (excluding treasury shares) as of the date of authorisation of these financial statements 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 2012.

During the year ended 31 December 2011, the Group declared and paid US$26,078 thousand (2010: 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 LLC BaltTransServis US$1,163 thousand (2010: US$2,003 thousand) was recognised as finance cost and the remaining US$24,915 thousand (2010: US$19,154 thousand) was recognised as dividends.

23. DEFERRED GAINS

	2011 US$'000	2010 US$'000
Current	**–**	150
Non-current	**–**	–
	–	150

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

24. BORROWINGS

	2011 US$'000	2010 US$'000
Current		
Bank overdrafts (Note 20)	**1,037**	745
Bank borrowings	**123,050**	119,601
Non-convertible unsecured bonds	**20,032**	21,528
Finance lease liabilities	**26,612**	49,275
Total current borrowings	**170,731**	191,149
Non-current		
Bank borrowings	**131,180**	219,426
Non-convertible unsecured bonds	**55,661**	78,397
Finance lease liabilities	**21,540**	30,067
Total non-current borrowings	**208,381**	327,890
Total borrowings	**379,112**	519,039
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**69,432**	117,346
Between 2 and 5 years	**115,111**	174,820
Over 5 years	**2,298**	5,657
	186,841	297,823

Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset reverts to the lessor in the event of default.

	2011 US$'000	2010 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**27,912**	54,161
Later than 1 year and not later than 5 years	**22,241**	31,383
Future finance charges of finance leases	**(2,001)**	(6,202)
Present value of finance lease liabilities	**48,152**	79,342
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**26,612**	49,275
Later than 1 year and not later than 5 years	**21,540**	30,067
	48,152	79,342

Bank borrowings

Bank borrowings mature by 2017 and bear average interest of 8.8% per annum (2010: 8.2% per annum).

There were no defaults or breaches of loan terms during the year ended 31 December 2011 and 31 December 2010.

The current and non-current bank borrowings amounting to US$92,646 thousand and US$130,868 thousand respectively (2010: US$118,771 thousand and US$211,662 thousand respectively) are secured by pledge of rolling stock and assignment of rights under contracts for organisation of transportation services. The remaining bank borrowings amounting to US$30,716 thousand (2010: US$8,594 thousand) are unsecured.

The bank and financial institutions loans of a total amount of US$223,514 thousand (2010: US$330,433 thousand) are secured by property, plant and equipment at the carrying net book value of US$303,894 thousand (2010: US$396,049 thousand) (Note 12).

Non-convertible bonds

Non-convertible Russian Ruble denominated bonds issued by a subsidiary of the Group carry a coupon rate of 9.25% and has an amortising structure with final maturity in 2015.

Notes to the consolidated financial statements continued

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:

	2011 US$'000	2010 US$'000
6 months or less	179,950	297,776
6 to 12 months	35,747	58,551
1 to 5 years	161,117	157,055
Over 5 years	2,298	5,657
	379,112	519,039

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

	Carrying amount		Fair value	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Bank borrowings	131,180	219,426	131,180	219,426
Non-convertible unsecured bonds	55,661	78,397	55,343	79,551
Finance lease liabilities	21,540	30,067	21,540	29,566
	208,381	327,890	208,063	328,543

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 Ruble deposits.

(2) Moscow Interbank Currency Exchange

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

	2011 US$'000	2010 US$'000
US Dollar	79,890	113,115
Russian Ruble	299,120	405,753
Euro	102	171
	379,112	519,039

The Group has the following undrawn borrowing facilities:

	2011 US$'000	2010 US$'000
Floating rate:		
Expiring within one year	26,012	37,384
Fixed rate:		
Expiring within one year	86,452	8,531
Expiring beyond one year	–	22,752
	112,464	68,667

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

	2011 %	2010 %
Bank overdrafts	2.2	2.3
Bank borrowings	8.8	8.2
Non-convertible unsecured bonds	9.3	9.3
Finance lease liabilities	5.0	9.1

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 taxable entity and fiscal authority. The offset amounts are as follows:

	2011 US$'000	2010 US$'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**36,516**	34,122
– Deferred tax liability to be recovered within 12 months	**(1,269)**	(1,692)
Deferred tax liabilities (net)	**35,247**	32,430

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

	2011 US$'000	2010 US$'000
Beginning of year	**32,430**	27,955
Income statement charge (Note 10)	**7,826**	6,979
Withholding tax on actual dividend distribution	**(2,859)**	(2,337)
Exchange differences	**(2,150)**	(167)
End of year	**35,247**	32,430

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 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 2010/1 January 2011	27,596	(8,775)	–	(1,574)	9,670	5,994	(481)	32,430
Charged/(credited) to:								
Income statement (Note 10)	2,339	7,423	–	1,032	4,316	(6,977)	(307)	7,826
Withholding tax on actual dividend distribution	–	–	–	–	(2,859)	–	–	(2,859)
Currency translation differences	(1,691)	(180)	–	(5)	(618)	289	55	(2,150)
At 31 December 2011	28,244	(1,532)	–	(547)	10,509	(694)	(733)	35,247

Deferred tax assets are recognised 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 recognise deferred income tax assets of US$16 thousand in 2010 in respect of cumulative tax losses amounting to US$160 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 utilisation of these tax losses.

Deferred income tax liabilities of US$55,602 thousand (2010: US$44,546 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 totalled US$501,313 thousand as at 31 December 2011 (2010: US$387,749 thousand).

Notes to the consolidated financial statements continued

26. TRADE AND OTHER PAYABLES

	2011 US$'000	2010 US$'000
Current		
Trade payables to third parties	**10,620**	15,672
Trade payables to related parties (Note 30)	**454**	1,315
Other payables to third parties	**17,756**	13,257
Accrued expenses	**6,954**	9,530
Advances from customers for transportation services	**26,796**	24,400
Advances from related parties for transportation services (Note 30)	**1,379**	3,029
	63,959	67,203
Non-current		
Other payables to third parties	**–**	10,467
	–	10,467

Note: advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services. 'Other payables' as at 31 December 2010 include 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.

	2011	2010
Profit attributable to equity holders of the Company (US$ thousand)	**266,423**	177,322
Weighted average number of ordinary shares in issue (thousand)	**158,136**	158,136
Basic and diluted earnings per share (expressed in US$ per share)	**1.68**	1.12

28. 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. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government to sustain growth, and to change the tax, legal and regulatory environment.

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.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Debtors and borrowers of the Group 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 which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to 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 of 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. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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, that such transfer prices could 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 Group.

The Group includes companies incorporated outside of Russia. The 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. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. 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 Group.

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. 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. OOO Sevtekhnotrans has filed an objection and in July 2011 received a positive ruling from the Ministry of Finance of Russia in respect of this claim, therefore no provision has been recognised in respect of this claim in these 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 2011 and 31 December 2010 (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.

Notes to the consolidated financial statements continued

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 LLC BaltTransServis, a subsidiary of the Company, provided a guarantee to Sberbank RF for a long-term loan received by a third party. The guarantee was provided free of charge, was limited to US$45,000 thousand per year and was issued for a period of 5 years. The 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. Amortisation of the guarantee in amount of US$961 thousand was recorded in the income statement for the year ended 31 December 2010.

As at 31 December 2011 the carrying value of the guarantee was NIL (2010: NIL).

Legal proceedings

During the year ended 31 December 2011, the Group was involved as a claimant and defendant in a number of court proceedings.

During the year ended 31 December 2010, AS Spacecom, a subsidiary of the Company was involved in court proceedings with AS Eesti Raudtee (Estonian Railways). In January 2011, Tallinn Circuit Court (Court of second instance) published a ruling which satisfied the claim of Estonian Railways against AS Spacecom in the amount of EUR15,078 thousand (US$19,509 thousand at 31 December 2011 exchange rates) for the unpaid invoices and late payment charges, plus costs and legal fees. In May 2011, the Court of third instance has declined an application for an appeal submitted by AS Spacecom and consequently the decision of the Tallinn Circuit Court came into force. The Group was indemnified for up to 61% of any 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. The net amount of the claim which was not previously provided for in the consolidated financial statements of the Group less amounts compensated in accordance with such indemnification clauses was recognised in these consolidated financial statements in a total amount of EUR2,848 thousand (US$3,964 thousand at 31 December 2011 exchange rates). Such amount was attributed solely to non-controlling interests and therefore had no impact on profit attributable to equity owners of the Group or on Earnings per share. The claim was settled in full by the Group and respective indemnity was received during the year ended 31 December 2011.

In July 2011 the Group received a notice of a claim in relation to 240 railcars, which a subsidiary of the Company acquired through finance lease in July 2010. The claim suggests that such railcars were not released from pledge by the lessor upon transfer to the Group and due to the fact that the lessor defaulted on its obligations to the pledgee, the claim was brought against the subsidiary of the Company being the current owner of the pledged railcars. Two law suits are in progress in relation to this matter, one in Moscow City Arbitration Court in Russia and a second one in the Moldova Republic. In February 2012 the subsidiary of the Company has received a positive ruling from Moscow City Arbitration Court in respect of this claim. Following this decision the pledgee's right in relation to pledged assets was confirmed as non-negotiable. The case in Moldova Republic is still pending in court.

The net book value of the railcars involved in the above claim as at 31 December 2011 was RR230,684 thousand (US$7,165 thousand at 31 December 2011 exchange rates). Based on current facts and circumstances, 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.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2011 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.

29. COMMITMENTS

a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2011 US$'000	2010 US$'000
Property, plant and equipment	**205,595**	–

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 rates.

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:

	2011 US$'000	2010 US$'000
Not later than 1 year	**49,523**	117,261
Later than 1 year and not later than 5 years	**12,062**	22,645
	61,585	139,906

c) Operating lease commitments – Group as lessor

	2011 US$'000	2010 US$'000
Not later than 1 year	**60,766**	7,360
Later than 1 year and not later than 5 years	**5,397**	1,549
	66,163	8,909

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$nil for the year ended 31 December 2011 (2010: US$nil).

30. 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

	2011 US$'000	2010 US$'000
Sales of services:		
Associate	**–**	3
The Parent		–
Other related parties:		
Entities under control of the Parent	**29,215**	23,599
Entities under significant influence of the Parent	**13,281**	27,618
Entities under significant influence of members of key management	**113,896**	83,201
	156,392	134,421

b) Purchases of goods and services

	2011 US$'000	2010 US$'000
Purchases of services:		
Associate	**398**	324
Other related parties		
Entities under control of the Parent	**4,475**	3,484
Entities under control by parties with significant influence over the Group	**1,089**	1,053
Entities under significant influence of the Parent	**457**	2,399
Entities under significant influence of members of key management	**21,432**	25,524
	27,851	32,784

Notes to the consolidated financial statements continued

c) Additions and disposals of property, plant and equipment

	2011 US$'000	2010 US$'000
Additions:		
Other related parties		
Entities under control of the Parent	**1,737**	882
Entities under significant influence of members of key management	**216**	415
	1,953	1,297
Disposals:		
Other related parties: entities under significant influence of members of key management	**–**	8

d) Interest income and expenses

	2011 US$'000	2010 US$'000
Interest expense (Note 9):		
The parent	**–**	(899)
	–	(899)

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 and unwinding of discounting effect on such liability for the amount of US$551 thousand included in Other finance costs.

e) Key management compensation

	2011 US$'000	2010 US$'000
Key management salaries and other short term employee benefits	**21,065**	17,952
	21,065	17,952

Note: 'key management salaries and other short term employee benefits' include bonuses amounting to US$14,960 thousand for the year ended 31 December 2011 (2010: US$11,629 thousand) and directors' remuneration paid to the directors of the Company both by the Company and by subsidiaries of the Group in respect of services provided to such subsidiaries amounting to US$2,388 thousand (2010: US$1,396 thousand).

f) Year-end balances arising from sales/purchases of goods/services

	2011 US$'000	2010 US$'000
Trade receivable from related parties (Note 18):		
Other related parties		
Entities under control of the Parent	**7,738**	3,110
Entities under significant influence of the Parent	**–**	1,305
Entities under significant influence of members of key management	**6,991**	7,898
Other receivables from related parties (Note 18):	**14,729**	12,313
Other related parties		
Entities under control of the Parent	**32**	–
Entities under significant influence of the Parent	**–**	1
Entities under significant influence of members of key management	**1**	–
	33	1
Prepayments to related parties (Note 18):		
Other related parties		
Entities under control of the Parent	**375**	361
Entities under significant influence of members of key management	**2,473**	7,556
	2,848	7,917

	2011 US$'000	2010 US$'000
Trade payables to related parties (Note 26):		
Other related parties		
Entities under control of the Parent	**212**	6
Entities under significant influence/joint control of the Parent	**–**	13
Entities under significant influence of members of key management	**242**	1,296
	454	1,315
Advances from related parties (Note 26):		
Other related parties		
Entities under control of the Parent	**98**	2,038
Entities under significant influence of the Parent	**–**	255
Entities under significant influence of members of key management	**1,281**	736
	1,379	3,029

g) Other transactions with related parties

Year ended 31 December 2011

- In December 2011 the Company acquired an additional stake of 4.25% of shares in AS Spacecom, subsidiary of the Company, from its Parent entity for a total consideration of US$7,200 thousand bringing its shareholding in AS Spacecom to 65.25%. The carrying amount of the non-controlling interest acquired on the date of acquisition was US$5,073 thousand. The Group de-recognised non-controlling interests of US$5,073 thousand and recorded a decrease in equity attributable to owners of the Company of US$2,127 thousand.
- In September 2011 the Company received EUR4,455 thousand (US$6,345 thousand) from its Parent entity as compensation of 61% of losses of AS Spacecom, suffered as a result of the legal claim which was not previously recognised in these consolidated financial statements (Note 28).

Year ended 31 December 2010

- In accordance with the Share purchase agreements regarding the purchase of shares in AS Spacecom and AS Spacecom Trans (formerly AS Intopex Trans) and amendments thereto, in April 2010, the Company has settled in full its liability to the Parent including accrued interest.

h) Operating lease commitments – Group as lessee

The future aggregate minimum lease payments under non-cancellable operating leases with other related parties are as follows:

	2011 US$'000	2010 US$'000
Not later than 1 year	**16,206**	15,682
Later than 1 year and not later than 5 years	**4,907**	1,555
	21,113	17,237

Operating lease commitments with 'other related parties' amounting to US$20,311 thousand were to entities under significant influence of members of key management (2010: US$16,198,000), with the rest of the commitments to entities under control of the Parent.

i) Operating lease commitments – Group as lessor

The future minimum lease payments receivable under operating leases with other related parties are as follows:

	2011 US$'000	2010 US$'000
Not later than one year	**15**	9

All commitments on 31 December 2010 were from entities under control of the Parent.

31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2012 the Company, in accordance with the decision of the Extraordinary General Meeting which took place on 20 December 2011, has completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. The shares will be held in treasury for a maximum period of 24 months.

In March 2012, OJSC New Forwarding Company, a Russian subsidiary of the Company, issued 3-year Russian Rouble denominated exchange-traded bonds for a total amount of RUB10 billion (US$310,597 thousand at 31 December 2011 exchange rate) at a coupon rate of 10.00% per annum. Bonds are traded on MICEX in Moscow. The Company acts as the guarantor for the bond issue.

In January – April 2012 the Group:

- has contracted for 6,238 open wagon cars to be delivered until the end of June 2012;
- has received 6,431 open wagons and 590 tank cars contracted at the end of 2011 and in 2012;
- has received an equivalent of US$410,878 thousand of long-term bank borrowings (at 11 April 2012 exchange rates) of which RUB9,862,240 thousand (US$332,780 at 11 April 2012 exchange rates) were denominated in Russian Roubles, remaining new borrowings were denominated in US Dollars and Euro.

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 is on pages 7 to 8.

Appendix 2

Directors' report and parent company financial statements for the year ended 31 December 2011

Contents

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
Alternate Director: Ms. Ekaterina Golubeva

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
Alternate Director: Mr. Konstantin Tserekh

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

Ms. Elia Nicolaou
Non-executive Director
Member of the Audit Committee
Alternate Director: Mr. Marios Tofaros

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
Assistant Secretary: Mr. Marios Tofaros
Maria House
5th Floor
1 Avlonos Street
CY-1075, Nicosia
Cyprus

Assistant secretary: Mr. Marios Tofaros

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 2011. 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 2011 was US$110,724 thousand (2010: net profit of US$59,457 thousand). On 31 December 2011 the total assets of the Company were US$743,008 thousand (2010: US$731,538 thousand) and net assets were US$739,426 (2010: US$726,931). 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 2011 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 2011 the Board of Directors has not declared any interim dividends in relation to 2011.

In May 2011 the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2011 the amount of US$0.37 per ordinary share, amounting to a total dividend of US$58,510,147.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of issued shares (excluding treasury shares) as of the date of this report.

Share capital

As at 31 December 2011 and 31 December 2010 the authorised share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2011 and 31 December 2010 the issued share capital of the Company comprised 158,135,533 ordinary shares with a par value of US$0.10 per share.

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 judgement with a view to the best interests of the Group, and they are able to exercise objective judgement on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2011 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 2011.

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 2011 amounted to US$397 thousand (2010: US$384 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 2011 is shown below:

Name	Type of holding		**2011**	2010
Alexander Eliseev	Indirect holding of ordinary shares and GDRs		**11,318,909**	11,318,909
Sergey Maltsev		**Indirect holding of ordinary shares and GDRs**	**11,658,456**	11,658,456
Johann Franz Durrer	Holding of GDRs		**100,000**	100,000

Total number of issued shares of the Company as at 31 December 2011 and 31 December 2010 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 14 meetings in 2011. The Directors' attendance record is presented in the table below.

Name	Attended
Alexander Eliseev	5
Michael Zampelas	14
Johann Franz Durrer	14
Sergey Maltsev	10
Mikhail Loganov	14
Elia Nicolaou	14
Konstantin Shirokov	14

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.

Report of the Board of Directors continued

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

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

Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. As such, all employees are required to comply with these guidelines and the Group's management team takes responsibility 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 supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the 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 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 13 May 2011.

Refer to Note 21 of the parent company financial statements for details 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

During the year ended 31 December 2011 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. On 2 January 2012 pursuant to the approval of the Extraordinary General Meeting of shareholders which took place on 20 December 2011, the Company completed the purchase of 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total value of US$43,172,579. The shares will be held as treasury shares for a maximum period of two years.

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 2012, including cash flows and borrowing facilities, the Directors consider that the Company 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, 11 April 2012

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 32) and the report of the Board of Directors (presented on pages 2 to 5) 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 accompanying financial statements of parent company Globaltrans Investment PLC (the "Company") which comprise the balance sheet as at 31 December 2011, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 of financial statements that give a true and fair view 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 basis for our audit opinion.

Independent Auditor’s Report continued
To the members of Globaltrans Investment PLC

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of parent company Globaltrans Investment PLC as at 31 December 2011, 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 European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, 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 Cyprus 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 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 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.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011.

Vasilis Hadjivassiliou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol,11 April 2012

Income statement
for the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Revenue	5	**123,231**	64,777
Selling and marketing costs		**(96)**	(55)
Administrative expenses		**(2,907)**	(2,768)
Other (losses)/gains – net	6	**(3,037)**	682
Operating profit		**117,191**	62,636
Finance costs	9	**–**	(763)
Finance income	9	**(2,016)**	28
Finance costs – net	9	**(2,016)**	(735)
Profit before tax		**115,175**	61,901
Tax	10	**(4,451)**	(2,444)
Profit for the year		**110,724**	59,457

The notes on pages 14 to 32 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit for the year	**110,724**	59,457
Other comprehensive loss:		
Currency translation differences	**(39,719)**	(3,843)
Other comprehensive loss for the year, net of tax	**(39,719)**	(3,843)
Total comprehensive profit for the year	**71,005**	55,614

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 32 are an integral part of these financial statements.

Balance sheet
at 31 December 2011

	Note	2011 US$'000	2010 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**585,749**	541,958
Property, plant and equipment	13	**37**	36
Loans and other receivables	17	**110,294**	100,370
Total non-current assets		**696,080**	642,364
Current assets			
Loans and other receivables	17	**2,140**	53,670
Cash and cash equivalents	18	**44,788**	35,504
Total current assets		**46,928**	89,174
TOTAL ASSETS		**743,008**	731,538
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		**(99,585)**	(59,866)
Retained earnings		**111,970**	59,756
Total equity		**739,426**	726,931
Current liabilities			
Current income tax liabilities		**201**	71
Payables and accrued expenses	20	**3,381**	4,536
Total current liabilities		**3,582**	4,607
TOTAL LIABILITIES		**3,582**	4,607
TOTAL EQUITY AND LIABILITIES		**743,008**	731,538

On 11 April 2012 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 32 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2011

	Note	Share capital US$'000	Share premium US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000
Balance at 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		–	–	–	–	(24,000)	(24,000)
Balance at 31 December 2010 / 1 January 2011		15,814	621,227	(59,866)	90,000	59,756	726,931
Comprehensive income							
Profit for the year		–	–	–	–	110,724	110,724
Other comprehensive loss							
Currency translation differences		–	–	(39,719)	–	–	(39,719)
Total comprehensive income for 2011		–	–	(39,719)	–	110,724	71,005
Transaction with owners							
Dividend relating to 2010	12	–	–	–	–	(58,510)	(58,510)
Total transactions with owners						(58,510)	(58,510)
Balance at 31 December 2011		15,814	621,227	(99,585)	90,000	111,970	739,426

The notes on pages 14 to 32 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Cash flows from operating activities			
Profit before tax		**115,175**	61,901
Adjustments for:			
Depreciation of property, plant and equipment	13	**12**	13
Profit on sale of property, plant and equipment	7	**(5)**	–
Interest income	9	**(24)**	(28)
Interest expense	9	**–**	705
Exchange losses on financing activities	11	**2,040**	58
Amortisation of financial guarantees	6	**(1,114)**	(615)
Operating cash flows before working capital changes		**116,084**	62,034
Changes in working capital:			
Other receivables		**39,326**	(33,057)
Payables and accrued expenses		**(41)**	(1,898)
Net cash generated from operations		**155,369**	27,079
Tax paid		**(6,201)**	(550)
Net cash generated from operating activities		**149,168**	26,529
Cash flows from investing activities			
Acquisition of subsidiaries	14	**(81,700)**	(7,000)
Capital contribution to subsidiaries	14	**–**	(1,275)
Purchases of property, plant and equipment	13	**(13)**	–
Proceeds from sale of property plant and equipment	13	**5**	–
Loans granted to related parties	21	**(23,330)**	(132,670)
Loan repayments received from related parties	21	**18,013**	70,000
Interest received		**24**	28
Receipt of indemnity for losses suffered by subsidiary	21	**6,345**	–
Net cash used in investing activities		**(80,656)**	(70,917)
Cash flows from financing activities			
Interest paid		**–**	(964)
Dividends paid to Company's shareholders		**(58,510)**	(24,000)
Net cash used in financing activities		**(58,510)**	(24,964)
Net increase/(decrease) in cash and cash equivalents		**10,002**	(69,352)
Exchange losses on cash and cash equivalents		**(718)**	(31)
Cash and cash equivalents at beginning of year	18	**35,504**	104,887
Cash and cash equivalents at end of year	18	**44,788**	35,504

The notes on pages 14 to 32 are an integral part of these financial statements.

Notes to the financial statements

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.

Approval of the financial statements

These financial statements were authorised for issue by the Board of Directors of the Company on 11 April 2012.

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 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.

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.

All International Financial Reporting Standards issued by International Accounting Standards Board (IASB) and effective as at 1 January 2011 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 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.

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 2011 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.

New standards, interpretations and amendments to published standards

a) The Company has adopted the following new standards, amendments and interpretations as of 1 January 2011:

- **Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 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.

As a result of the revised standard, the Company now also discloses contractual commitments to purchase and sell goods or services to its related parties. This amendment was adopted previously by the Company in its prior year's 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 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 the 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 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; 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 above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").
- **Other revised standards and interpretations effective for the current period.** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any 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: Classification and Measurement*.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard 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 payments of principal and interest only (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

Notes to the financial statements continued

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.

– Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, 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 endorsement of the standard by the European Union.

- **IFRS 10, Consolidated Financial Statements*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation – special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. 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 endorsement of the standard by the European Union.
- **IFRS 12, Disclosure of Interest in Other Entities*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company expects the new standard to have an impact on disclosures of interest in other entities but no impact on the measurement of interests in other entities. The timing of its adoption by the Company is subject to endorsement of the standard by the European Union.
- **IFRS 13, Fair value measurement*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. 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 endorsement of the standard by the European Union.
- **IAS 27, Separate Financial Statements*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),** was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Company is considering the implications of the amendment, the impact on the Company and the timing of its adoption by the Company which is subject to endorsement of the amendment by the European Union.
- **Amendments to IAS 1, Presentation of Financial Statements* (issued in June 2011, effective for annual periods beginning on or after 1 July 2012),** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to ‘statement of profit or loss and other comprehensive income’. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

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

- **IAS 28, Investments in Associates and Joint Ventures*, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Company is considering the implications of the amendment, the impact on the Company and the timing of its adoption by the Company which is subject to endorsement of the amendment by the European Union.
- **IFRS 11, Joint Arrangements*, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),** replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes

in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The amendment is not expected to have an impact on the Company's financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

- **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.
- **Amended IAS 19, Employee Benefits*, (issued in June 2011, effective for periods beginning on or after 1 January 2013),** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Company does not expect that the adoption of this amendment will have any impact on the financial statements as the Company does not operate any defined benefit pension plans. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*, (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Company does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Disclosures—Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7* (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments. The timing of the adoption of the amendment by the Company is subject to endorsement of the amendment by the European Union.
- **Amendment to IAS 12 "Income Taxes"* on deferred tax relating to recovery of underlying assets, (issued in September 2010 and effective for annual periods beginning on or after 1 January 2012).** IAS 12 "Income Taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS40 "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income taxes – recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Company does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **Amendment to IFRS 1 "First-time adoption of International Financial Reporting Standards"* on severe hyperinflation and removal of fixed dates for First Time Adopters, (issued in August and September 2010 and effective for annual periods beginning on or after 1 July 2011).** These amendments include two changes to IFRS 1 "First-time adoption of IFRS". The first replaces references to a fixed date of 1 January 2004 with "the date of transition to IFRSs", thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The Company does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"* (issued in October 2011 and effective for annual period beginning on or after 1 January 2013).** IFRIC 20, 'Stripping costs in the production phase of a surface mine', sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting

Notes to the financial statements continued

under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body. The Company does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement of the amendment by the European Union.

- **Amendments to IFRS 1 "First–time adoption of International Financial Reporting Standards" on the application of IFRS 9 "Financial Instruments" and IAS 20 "Accounting for Government Grants and Disclosure on Government Assistance"***, **(issued in March 2013 and effective for annual periods beginning on or after 1 January 2013).** The IASB has amended IFRS 1, 'First-time adoption of International Financial Reporting Standards' to provide relief from the retrospective application of IFRSs in relation to government loans. The new exception requires first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRSs. The amendment aligns IFRS 1 with the IAS 20 requirements (after its revision in 2008) to prospectively fair value government loans with a below-market rate of interest. The general requirement in IFRS 1 for first-time adopters to apply IFRSs retrospectively at the date of transition to IFRSs could mean some entities have to measure such government loans at fair value at a date before the date of transition to IFRS. This might mean management has to apply hindsight in order to derive a fair value that has significant unobservable inputs. So the Board has added an exception that allows a first-time adopter to use its previous GAAP carrying amount for such loans on transition to IFRS. The exception applies to recognition and measurement only. Management should use the requirements of IAS 32, 'Financial instruments: Presentation', to determine whether government loans are classified as equity or as a financial liability. The Company does not expect that the adoption of this amendment will have any impact on the financial statements. The timing of the adoption of the amendment is subject to endorsement by the European Union.

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'.

Employee benefits

Wages, salaries, contributions to the 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 Company. These are included in staff costs and the Company has no further obligations once the contributions have been paid.

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

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 Company 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.

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.

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 to 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.

Notes to the financial statements continued

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. The cost of investments in subsidiaries includes the fair value of any asset or liability arising from a contingent consideration arrangement. The subsequent remeasurement of the any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

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. Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity until the shares are cancelled or re-issued. Where such ordinary shares are subsequently re-issued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

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 a 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 issued 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

During 2010 the Russian Rouble was relatively stable against the US dollar. During 2011 the exchange rate of the Russian Rouble against the US dollar was subject to substantial fluctuations, which resulted in foreign exchange losses for the Company for the year ended 31 December 2011. 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 2011 and 31 December 2010 are as follows:

	2011 US$'000	2010 US$'000
Assets	**69,527**	153,978
Liabilities	**4**	4

Had US dollar exchange rate strengthened/weakened by 15% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the Company for the year ended 31 December 2011 would have increased/decreased by US$9,386 thousand (2010: 10% change, effect US$13,858 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 2011 and 31 December 2010 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.

The majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These enable 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 2011 and 31 December 2010 none of the accounts receivable or cash and cash equivalents were past due or impaired.

d) Liquidity risk

As at 31 December 2011, the Company had a net working capital surplus of US$43,346 thousand (2010: US$84,567 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 summarises the analysis of financial liabilities of the Company by maturity as of 31 December 2011 and 31 December 2010. 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 2011					
Trade and other payables[(1)]	97	199	–	–	296
Financial guarantee contracts[(2)]	114,005	97,590	26,738	–	238,333
	114,102	97,789	26,738	–	238,629
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

[(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 capitalisation 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 capitalisation 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 capitalisation.

As at 31 December 2011 and 31 December 2010 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

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 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

Notes to the financial statements continued

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.

(ii) Treatment of indemnity received for losses suffered by subsidiary
During the year ended 31 December 2011, the Company has received an amount of US$6,345 thousand from Transportation Investments Holding Limited ("TIHL"). This payment relates to the indemnity stipulated by the share purchase agreement concluded between the Company and TIHL in 2008 in respect of the shares in AS Spacecom. AS Spacecom has lost a legal case against Eesti Raudtee (Estonian Railways) and the terms of the share purchase agreement allowed the Company to claim 61% of losses in respect of such legal case that exceed the amounts provided in the financial statements of AS Spacecom at the time of its acquisition.
The indemnity was paid to the Company on 1 September 2011.

The indemnification received has been adjusted against the cost of the investment in subsidiary rather than being recognised in the income statement. The management believes this indemnification is similar in nature to a contingent consideration adjustment and as such remeasurement of such indemnification asset shall be adjusted against the cost of the investment in line with the Company's accounting policy. The management believes that this is a fair presentation of the substance of this transaction.

5. REVENUE

	2011 US$'000	2010 US$'000
Interest on loans to related parties (Note 21)	**9,659**	6,563
Dividend income	**113,572**	58,214
Total	**123,231**	64,777

6. OTHER (LOSSES)/GAINS – NET

	2011 US$'000	2010 US$'000
Net foreign exchange transaction (losses)/gains on non-financing activities (Note 11)	**(4,151)**	67
Amortisation of financial guarantees	**1,114**	615
Other (losses)/gains – net	**(3,037)**	682

7. EXPENSES BY NATURE

	2011 US$'000	2010 US$'000
Auditors' remuneration for statutory audit services	**409**	364
Auditors' remuneration for statutory audit services – under provision of prior year	**35**	49
Advertising and marketing expenses	**96**	55
Office rent	**63**	60
Depreciation of property, plant and equipment (Note 13)å	**12**	13
Employee benefit expense (Note 8)	**362**	252
Legal, consulting and other professional services	**977**	847
Bank charges	**19**	25
Non-executive directors' fees (Note 21)	**232**	226
Travel expenses	**513**	316
Profit on sale of property, plant and equipment	**(5)**	–
Stock exchange and financial regulator fees	**41**	204
Other expenses	**249**	412
Total selling and marketing costs and administrative expenses	**3,003**	2,823

8. EMPLOYEE BENEFIT EXPENSE

	2011 US$'000	2010 US$'000
Wages and salaries	**345**	243
Social security costs	**17**	9
Total employee benefit expense	**362**	252

9. FINANCE COSTS – NET

	2011 US$'000	2010 US$'000
Finance income:		
Interest on bank balances	**12**	3
Interest on bank deposits	**12**	25
Net foreign exchange transaction losses on cash and cash equivalents (Note 11)	**(2,040)**	–
Total finance income	**(2,016)**	28
Finance costs:		
Interest expense on payables to related parties (Note 21)	**–**	(705)
Net foreign exchange transaction losses on financial liabilities (Note 11)	**–**	(58)
Total finance costs	**–**	(763)
Total finance costs – net	**(2,016)**	(735)

10. INCOME TAX EXPENSE

	2011 US$'000	2010 US$'000
Current tax:		
Withholding tax on dividends receivable	**4,282**	1,860
Corporation tax – current year	**201**	581
Corporation tax – prior year	**(33)**	
Special contribution for defence	**1**	3
Total tax expense	**4,451**	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:

	2011 US$'000	2010 US$'000
Profit before tax	**115,175**	61,900
Tax calculated at the applicable tax rate of 10%	**11,518**	6,190
Tax effect of expenses not deductible for tax purposes	**256**	348
Tax effect of allowances and income not subject to tax	**(11,573)**	(5,923)
Foreign withholding tax on dividends receivable	**4,282**	1,860
Tax effect of utilisation of previously unrecognised tax losses	**–**	(34)
Overstatement of prior year tax charge	**(33)**	
Special defence contribution	**1**	3
Tax charge	**4,451**	2,444

The Company is subject to corporation tax on taxable profits at the rate of 10%. Under certain conditions, interest may be exempt from income tax and be subject to defence contribution at the rate of 10% for interest earned until 31 August 2011 and 15% thereafter. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013.

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.

11. NET FOREIGN EXCHANGE (LOSSES)/GAINS

	2011 US$'000	2010 US$'000
Finance costs – net (Note 9)	**(2,040)**	(58)
Other (losses)/gains (Note 6)	**(4,151)**	67
Total foreign exchange (losses)/gains	**(6,191)**	9

12. DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2011.

Notes to the financial statements continued

Dividends paid in 2011 and 2010 were US$58,510,147 (US$0.37 per share) and US$24,000,230 (US$0.15 per share) respectively.

At the Annual General Meeting which will take place in May 2012, the Board of Directors of the Company will recommend a payment of dividend in relation to the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986 based on the number of issued shares (excluding treasury shares) as of the date of authorisation for issue of these financial statements. 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 2012.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles US$'000	Total US$'000
At 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 2010/1 January 2011		
Cost	**57**	57
Accumulated depreciation	**(21)**	(21)
Net book amount	**36**	36
Year ended 31 December 2011		
Additions	**13**	13
Depreciation charge	**(12)**	(12)
Closing net book amount	**37**	37
At 31 December 2011		
Cost	**58**	58
Accumulated depreciation	**(21)**	(21)
Net book amount	**37**	37

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

	2011 US$'000	2010 US$'000
Net book amount	**–**	–
Gain on sale of property, plant and equipment (Note 6)	**5**	–
Consideration from sale of property, plant and equipment	**5**	–

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

	2011 US$'000	2010 US$'000
Cash consideration received within year	**5**	–
Movement in advances received in accounts payable for sales of property, plant and equipment	**–**	–
	5	–

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2011 US$'000	2010 US$'000
At beginning of year	**541,958**	540,294
Capital contribution to subsidiaries	**–**	1,275
Fair value of financial guarantees provided (Note 21)	**–**	4,511
Acquisition of additional interest in subsidiaries	**81,700**	–
Indemnity receivable for the losses of the subsidiary (Note 21)	**(6,345)**	–
Currency translation differences	**(31,564)**	(4,122)
At end of year	**585,749**	541,958

Details of the direct and indirect investments in the subsidiary undertakings are as follows:

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2011	Effective % interest held 2010
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	60	55.56
Ultracare Holdings Limited *(100% subsidiary of Ingulana Holdings Ltd)*	Subsidiary	Cyprus	Intermediary holding company	60	50
BaltTransServis, LLC *(100% subsidiary of Ultracare Holdings Ltd)*	Subsidiary	Russia	Railway transportation	60	50
RemTransServis, OOO *(99% subsidiary of BaltTransServis, LLC)*	Subsidiary	Russia	Repair and maintenance of rolling stock	59.4	49.5
Spacecom, AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	65.25	61
Ekolinja Oy *(100% subsidiary of Spacecom, AS)*	Subsidiary	Finland	Operating sub-lease of rolling stock	65.25	61
Hoover SIA *(100% subsidiary of Spacecom, AS)*	Subsidiary	Latvia	Operating lease of rolling stock (dormant since 2006)*	–	61
AS Spacecom Trans	Subsidiary	Estonia	Operating lease of rolling stock	65	65
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	100	100

*Hoover SIA was liquidated.

15. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied in the line items below:

31 December 2011	Loans and receivables US$'000	**Total US$'000**
Financial assets as per balance sheet		
Loans and other receivables(1)	112,418	**112,418**
Cash and cash equivalents	44,788	**44,788**
Total assets		

	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	325	–	**325**
Financial guarantees(2)	–	3,056	**3,056**
Total liabilities	325	3,056	**3,381**

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**

Notes to the financial statements continued

31 December 2010	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[2]	–	4,298	**4,298**
Total liabilities	238	4,298	**4,536**

[1] Loans and other receivables do not include taxes and prepayments.
[2] Financial guarantees are carried at the higher of (a) the amount initially recognised less cumulative amortisation and (b) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

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:

	2011 US$'000	2010 US$'000
Counterparties without external credit rating		
Group 1	**112,418**	154,030
	112,418	154,030

Cash at bank and in short-term bank deposits Agency	Rating	**2011 US$'000**	2010 US$'000
Moody's*	Aaa	**–**	2
Moody's	Aa1	**88**	11,581
Moody's	Aa3	**–**	1
Moody's	A1	**44,593**	–
Moody's	A2	**–**	23,529
Moody's	Baa2	**–**	391
Moody's	Ba2	**107**	–
Total cash at bank and short-term bank deposits		**44,788**	35,504

*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.

17. LOANS AND OTHER RECEIVABLES

	2011 US$'000	2010 US$'000
Other receivables – related parties (Note 21)	**–**	35,535
Loans to related parties (Note 21)	**108,940**	116,370
Interest receivable from related parties (Note 21)	**3,478**	2,125
Prepayments – third parties	**10**	10
Prepayments – related parties (Note 21)	**6**	–
Total loans and other receivables	**112,434**	154,040
Less non-current portion:		
Loans to related parties (Note 21)	**108,940**	100,370
Interest receivable from related parties (Note 21)	**1,354**	–
Total non-current portion	**110,294**	100,370
Current portion	**2,140**	53,670

The weighted average interest rate on loans receivable from related parties was 8.39% at 31 December 2011 (31 December 2010: 6.03%). 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:

	2011 US$'000	2010 US$'000
Financial assets		
Loans to related parties	**97,833**	97,105
Interest receivable from related parties	**1,104**	–
Total financial assets	**98,937**	97,105

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:

	2011 US$'000	2010 US$'000
US Dollars	**24,744**	118,495
Russian Roubles	**87,680**	35,535
Euro	**10**	10
Total financial assets	**112,434**	154,040

18. CASH AND CASH EQUIVALENTS

	2011 US$'000	2010 US$'000
Cash at bank	**44,788**	35,504
Total cash and cash equivalents	**44,788**	35,504

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

	2011 US$'000	2010 US$'000
Cash and cash equivalents	**44,788**	35,504

Cash and cash equivalents are denominated in the following currencies:

	2011 US$'000	2010 US$'000
US Dollars	**44,783**	35,483
Euro	**5**	19
Swiss Francs	**–**	2
Total cash and cash equivalents	**44,788**	35,504

19. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2010/ 31 December 2010/31 December 2011	158,135,533	15,814	621,227	727,041

As at 31 December 2011 and 31 December 2010 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.

20. PAYABLES AND ACCRUED EXPENSES

	2011 US$'000	2010 US$'000
Current		
Provision for issued guarantees	**3,056**	4,298
Other payables	**126**	37
Accrued expenses	**199**	201
Total current trade and other payables	**3,381**	4,536

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 IAS 24 "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.

Notes to the financial statements continued

The following transactions were carried out with related parties:

a) Loans to related parties

	2011 US$'000	2010 US$'000
Loans to subsidiaries:		
At beginning of year	**118,495**	58,883
Loan advances	**23,330**	132,670
Interest charged (Note 5)	**9,659**	6,563
Loan repaid during the year	**(18,013)**	(70,000)
Interest repaid during the year	**(7,980)**	(9,622)
Net foreign exchange	**(13,073)**	–
At end of year	**112,418**	118,495
Consists of:		
Non-current portion	**110,294**	100,370
Current portion	**2,124**	18,125
At end of year	**112,418**	118,495

The balances at the year end carry a weighted average interest rate of 8.39% (2010: 6.03%) per annum and are payable by September 2017.

b) Dividend income from related parties

	2011 US$'000	2010 US$'000
Dividend income from related parties:		
Subsidiaries	**113,572**	58,214
Total	**113,572**	58,214

c) Year end balances with related parties

	2011 US$'000	2010 US$'000
Receivables from and prepayments to related parties:		
Subsidiaries – other receivables	**–**	35,535
Companies under common control – prepayments	**6**	–
Total receivables from and prepayments to related parties (Note 17)	**6**	35,535
Receivables from related parties:		
Current	**6**	35,535
Non-current	**–**	–
Total receivables from related parties (Note 17)	**6**	35,535

d) Interest income and expenses

	2011 US$'000	2010 US$'000
Interest income:		
Subsidiaries	**9,659**	6,563
Total interest income	**9,659**	6,563
Interest expense:		
The parent	**–**	(348)
Other finance cost:		
The parent	**–**	(357)
Total interest expense	**–**	(705)

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 Spacecom Trans (formerly AS Intopex Trans) in 2008 and losses arising on early settlement of this liability.

e) Directors' remuneration

	2011 US$'000	2010 US$'000
Directors' fees	**232**	226
Emoluments in their executive capacity	**165**	158
Total directors' remuneration	**397**	384

Key management compensation comprises solely directors' remuneration as stated above.

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:

	2011 US$'000	2010 US$'000
Subsidiaries	235,406	363,715
Total guarantees	235,406	363,715

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 recognised 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 (2011: US$941 thousand; 2010: US$450 thousand). As at 31 December 2011 the unamortised balance of the guarantee is US$2,997 thousand (2010: US$4,071 thousand) and is included in other payables. The liability is measured at the higher of (a) the amount initially recognised less cumulative amortisation and (b) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

During the year ended 31 December 2011 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) Indemnity for the losses of the subsidiary

During the year ended 31 December 2011, the Company has received an amount of US$6,345 thousand from Transportation Investments Holding Limited ("TIHL"). This payment relates to the indemnity stipulated by the share purchase agreement concluded between the Company and TIHL in 2008 in respect of the shares in AS Spacecom. AS Spacecom has lost a legal case against Eesti Raudtee (Estonian Railways) and the terms of the share purchase agreement allowed the Company to claim 61% of losses in respect of such legal case that exceed the amounts provided in the financial statements of AS Spacecom at the time of its acquisition. The indemnity was paid to the Company on 1 September 2011.

22. CONTINGENCIES

Operating environment of the Company

The Company's subsidiaries operate mainly in the Russian Federation and Estonia.

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation. The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government to sustain growth, and to change the tax, legal and regulatory environment.

Estonia represents a well-developed market economy with stable political systems and developed legislation based on EU requirements and regulations.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. 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

On 2 January 2012, in accordance with the approval of the general meeting of the Company that took place on 20 December 2011, the Company acquired 3,637,117 own ordinary shares from Envesta Investments Limited at the price of US$11.87 per share for the total consideration of US$43,172,579. The shares will be held as treasury shares for a maximum period of two years.

Notes to the financial statements continued

In March 2012, OJSC New Forwarding Company, a Russian subsidiary of the Company, has issued 3-year Russian Rouble denominated exchange-traded bonds for a total amount of RUB10 billion (US$310,597 thousand at 31 December 2011 exchange rate) at a coupon rate of 10.00% per annum. Bonds are traded on MICEX in Moscow. The Company acts as the guarantor for the bond issue.

There were no other material events after the balance sheet date which have a bearing on the understanding of these financial statements.

Independent Auditor's Report on pages 7 to 8.

Appendix 3

Key contacts and shareholder information

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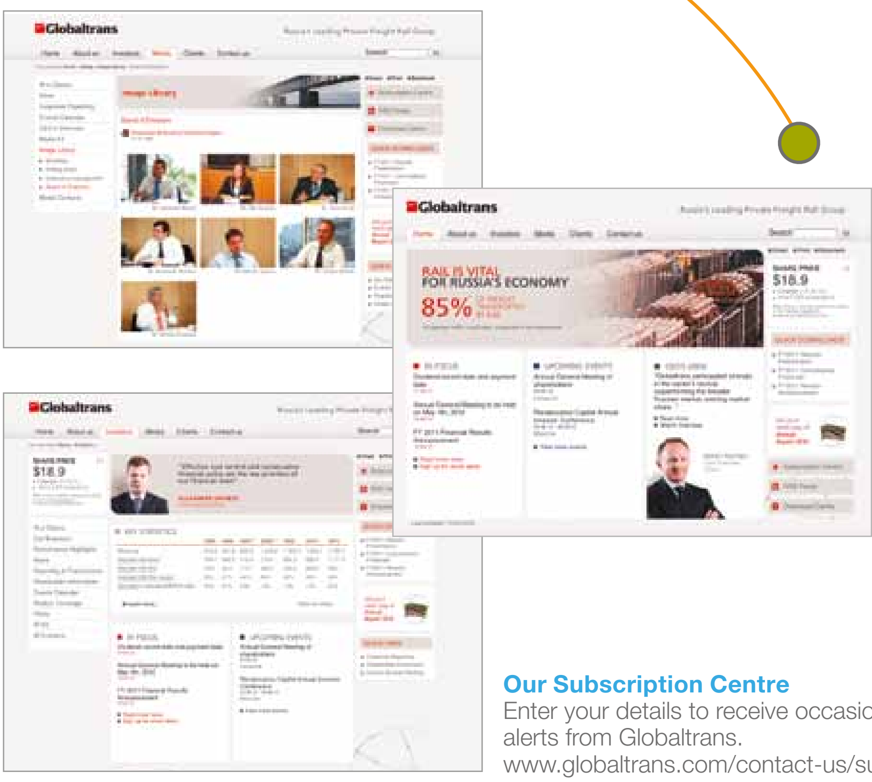

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