Russia's leading private freight rail group

Annual Report 2013

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

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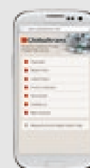
WWW.GLOBALTRANS.COM
Up-to-date information can be found on our corporate website



Scan the QR code with your smartphone to access the Globaltrans Investor Relations website

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 2013 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/download-centre). 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 pages 55-56 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.

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: the Federal State Statistics Service of the Russian Federation ("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 pages 57-58 of this Annual Report.

A YEAR IN BRIEF

Despite difficult conditions, the Group moved up a gear in 2013

Globaltrans demonstrated a resilient performance in 2013 despite a difficult year for the freight rail transportation industry in Russia brought on by the slowdown in growth in the Russian economy.

The Group's ability to deliver against this backdrop was the result of our robust business model, adaptable strategy and strong execution. Our business model focuses on the balance between gondola and rail tank cars which complement each other through the different phases of the economic cycle. In addition, our strategy of selective acquisitions of suitable captive rail operators along with long-term service contracts and flawless execution provided us with above-market results in the gondola car segment.

All these elements ensured that in 2013 our Group maintained high operational efficiency and won market share. Furthermore, Globaltrans' strong cash flow enabled the Group to significantly deleverage the business and to propose an unchanged dividend year on year in Russian Rouble terms[1]. This confirms Globaltrans' commitment to delivering attractive shareholder returns throughout the economic cycle.

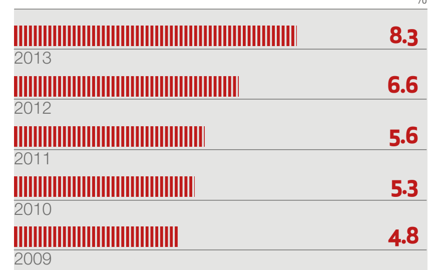
Sergey Maltsev
Chief Executive Officer

CONTINUED OPERATIONAL EXCELLENCE

Sustained market outperformance with Freight Rail Turnover up 13% year on year to 155.5 billion tonnes-km

The Group's Market Share raised to 8.3% from 6.6% in 2012

GLOBALTRANS' MARKET SHARE



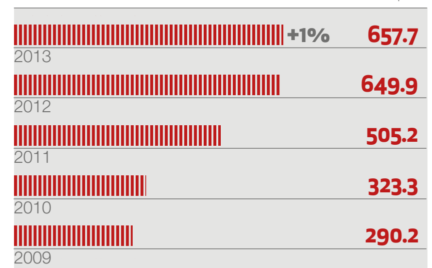
Source: Globaltrans, Rosstat

HIGH PROFITABILITY AND FREE CASH FLOW

Adjusted EBITDA Margin of 46%* with Adjusted EBITDA of US$652.7 million*

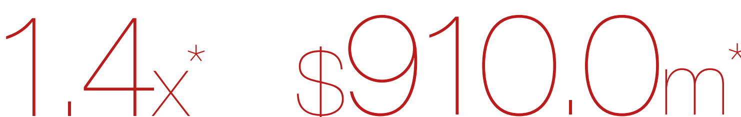
Group delivered robust Free Cash Flow of US$423.2 million*

CASH GENERATED FROM OPERATIONS



Source: Globaltrans

COMFORTABLE DEBT PROFILE

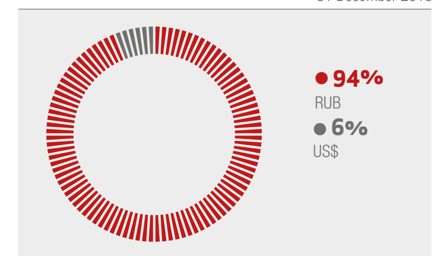


Net Debt to Adjusted EBITDA at a comfortable level of 1.4x*

The Group significantly deleveraged in the second half of 2013 and closed the year with Net Debt of US$910.0 million*

TOTAL DEBT BY CURRENCY[2]

As at 31 December 2013



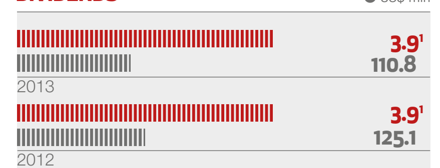
Source: Globaltrans

INCREASED DIVIDEND PAY-OUT RATIO

The Group increased its Dividend Pay-out Ratio to 61% compared to 48% in the previous year

The Board recommended dividends per ordinary share/GDR of 62 US cents (flat in RUB terms)[1]

DIVIDENDS



Source: Globaltrans

1. The proposed dividend amount in Russian Rouble terms equals RUB 3,943 million (calculated at the official US$/RUB FX rate of 35.58 as of 28 March 2014, the date of the Board decision on proposed dividends). This figure is 2% above RUB 3,865 million (US$125.1 million calculated at the official US$/RUB FX rate of 30.89 as of the previous date of the Board decision on proposed dividends on 22 March 2013).
2. Including share of total debt denominated in Euro which amounted to 0.003%.

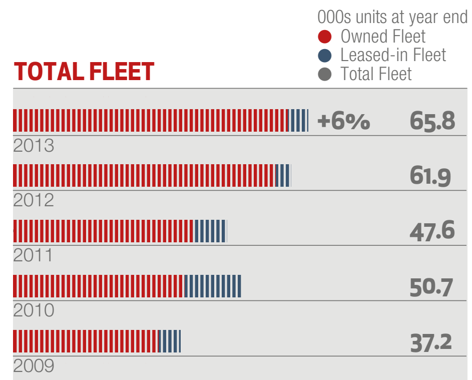
WHO WE ARE

A leading player servicing businesses across the world's largest country

Globaltrans is a leading freight rail transportation group with operations in Russia, the CIS and the Baltics. We are a pure freight rail specialist with 8.3% Market Share of the Russian freight rail transportation industry in 2013

A unique combination of a large and modern fleet

Globaltrans operates a Total Fleet of about 66,000 units of rolling stock, of which 93% are owned by the Group[1]. Our Owned Fleet is one of the most modern in the industry with an average age of just eight years[1]. Universal gondola cars and rail tank cars constitute the backbone of our fleet.

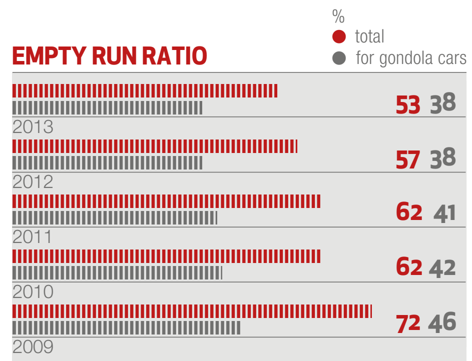


Source: Globaltrans

A powerful operational platform

Effective route management and minimisation of Empty Runs are key to our business. Over the years we have developed a powerful operational platform enabling the Group to deliver a best-in-class service offering, high fleet utilisation and low Empty Runs.

Find out more about our operational platform on p4



Source: Globaltrans

EMPTY RUN RATIO[1]

38% for gondola cars

53% total

AVERAGE RAILCAR AGE[1]

8yrs

SHARE OF OWNED FLEET[1]

93%

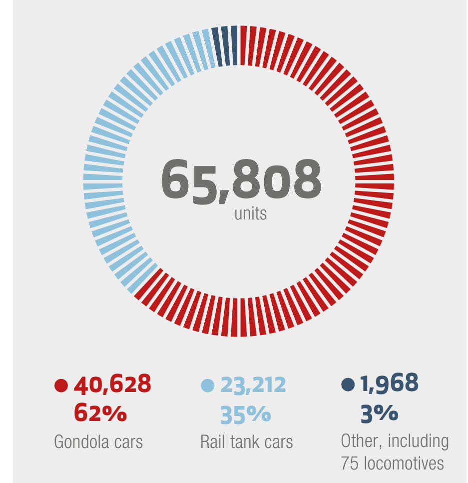
1. As of the end of 2013 or for 2013; average age of the Group's Owned Fleet.

3 Established blue-chip client base

We are long-term partners to many leading blue-chip companies in Russia and the CIS, including major industrial groups in metals and mining as well as oil products and oil industries. For many of our customers, we operate as an integral part of their logistics chain, providing freight transportation services based on long-term relationships.

TOTAL FLEET BY TYPE OF ROLLING STOCK

no. units, %
as at 31 December 2013



40,628	23,212	1,968
62%	35%	3%
Gondola cars	Rail tank cars	Other, including 75 locomotives

Source: Globaltrans

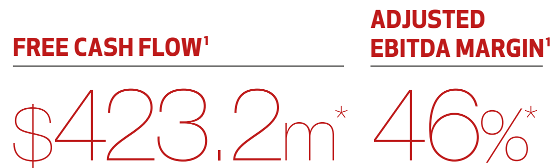
4 A robust business model balancing growth with resilience

Globaltrans is recognised as a company focused on opportunistic returns-oriented business expansion. The resilience of our business model is underpinned by the Group's balanced fleet of universal gondola cars and rail tank cars, advanced logistics and long-term service contracts with major customers.

Find out more about our business model on p16

5 Profitable and cash generative

We have a track record of delivering consistently high margins and robust cash flow and have a strong reputation for prudent capital allocation. When there are good investment opportunities, we invest more of our profits into the business. In periods of low investment activity, we focus on increasing dividend payments to return value to our shareholders.



FREE CASH FLOW[1]

$423.2m*

ADJUSTED EBITDA MARGIN[1]

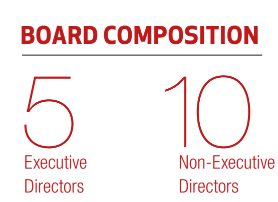
46%*

Find out more in the Financial Review p31

6 Strong governance

We have an experienced and well-balanced Board of Directors, with four Independent Directors, headed by an Independent Non-Executive Chairman. Our robust governance framework is based on an effective system of financial and risk management controls.

BOARD COMPOSITION



5 Executive Directors

10 Non-Executive Directors

4 Four of our Directors are independent

2. Owned through special holding vehicles: Ingulana Holdings Limited (Cyprus) and Ultracare Holdings Limited (Cyprus). BaltTransServis owns 99% in RemTransServis OOO (Russia), a repair depot.
3. Steeltrans owns 100% in Amalfico Holdings Limited (Cyprus) which owns 97% (100% of voting rights) in ZAO Ural Wagonrepair Company (Russia), a repair depot.
4. Spacecom owns 100% in Ekolinja (Finland) and 25.3% in AS Daugavpils Lokomotivju Remonta Rupnica (Latvia).

OUR OPERATIONAL PLATFORM

Our sophisticated logistics systems are the key to low Empty Runs and high fleet deployment

Logistics plays a central role and our extensive experience and deep understanding of managing complex logistics is fundamental to our success

As a specialist freight rail transportation group we have focused on effective route management from the very start, recognising that this was key to the success of our business. Over many years, we have built up a highly effective and reliable operational platform that guarantees our customers receive best-in-class servicing and helps drive greater efficiency and productivity across the Group.

CENTRALISED GONDOLA LOGISTICS ENABLES HIGH FLEET UTILISATION

About 40,000 gondola cars (including the fleets of recently acquired Ferrotrans and Steeltrans) are now operated from a single dispatching centre. A centralised gondola logistics system has been introduced to extract the full benefit from our service contracts with large metallurgical clients when combining these with the overall logistics of the Group.

MODERN FLEET ENHANCES SERVICE RELIABILITY

The Group's railcar fleet is one of the youngest of Russia's leading rolling stock operators, having a positive effect on the quality and reliability of our service offering. This large modern fleet enables Globaltrans to guarantee its customers reliable service. Flawless technical conditions are essential for providing reliable and on-time services. Therefore one of the main goals of our logistics team is to select the best repair locations in order to optimise repair costs and minimise the downtime for railcars under repair.

SIZEABLE LONG-TERM CONTRACTS CREATE WIN-WIN SITUATIONS

Long-term service contracts with large metallurgical groups enable Globaltrans to provide these clients with a "one-stop-shop" logistics solution. Dedicated freight rail solutions improve the speed and reliability of cargo off-take and also reduce the shunting costs for the customer. The logistics of interconnected metallurgical plants enables the efficient matching of inbound and outbound traffic (ore, metallurgy, and coal) thus minimising Empty Runs for the Globaltrans' gondola fleet.

USE OF BLOCK TRAINS IMPROVES DELIVERY TIMES

Block train logistics enables effective transportation solutions for both the customer and Globaltrans. By introducing cargo or client-specific block trains all bound for the same direction, we dispense with the time-consuming need to couple and decouple individual railcars at multiple sorting stations. This means that we can greatly increase the average daily distance that our railcars travel, thereby improving delivery times and rolling stock utilisation. This block train logistics process is widely used by us for rail transportation of oil products.

LOGISTICS IN THE WORLD'S LARGEST COUNTRY

Land area

17.1m sq.km

Proportion of overall Russian freight turnover carried by rail[1]

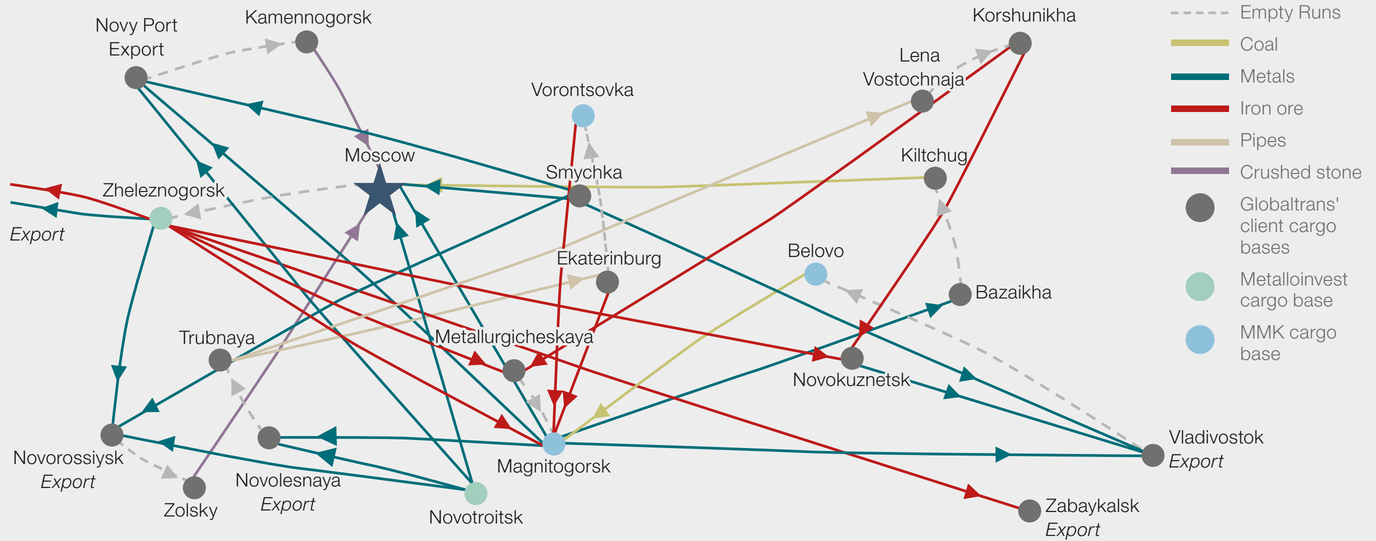
85%

Total length of railways

c.85,200km

Source: Rosstat, RZD

OUR GONDOLA CARS LOGISTICS: KEY ILLUSTRATIVE ROUTES



EFFICIENT FLEET MANAGEMENT

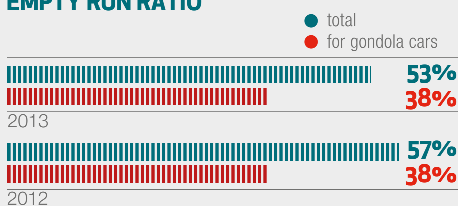
LONG-TERM PARTNERS

OUR EMPTY RUN RATIO

38%

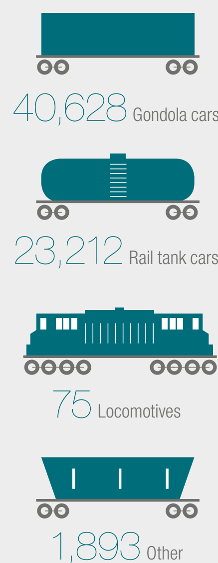
Empty Run Ratio for gondola cars maintained at 38% in 2013, the lowest annual level in the last five years

EMPTY RUN RATIO



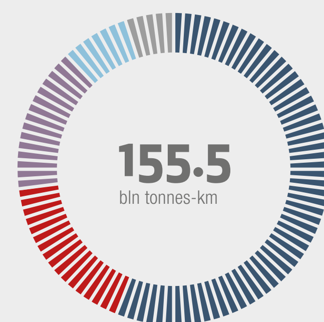
Source: Globaltrans

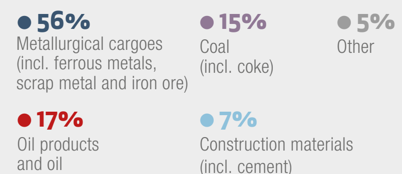
OUR FLEET[2]



Source: Globaltrans

OUR FREIGHT RAIL TURNOVER BY CARGO TYPE[3]





Source: Globaltrans

1. Excluding pipeline traffic.
2. Total Fleet as at 31 December 2013.
3. In 2013.

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Strategic Review

> “The Group’s ultimate strategic objective is to deliver sustainable, returns-oriented, long-term growth to our shareholders through the whole economic cycle”

MICHAEL ZAMPELAS
CHAIRMAN OF THE BOARD
INDEPENDENT NON-EXECUTIVE DIRECTOR

CHAIRMAN'S STATEMENT

The Group outperformed the market and reinforced its competitive position

MICHAEL ZAMPELAS
Chairman of the Board of Directors, Independent Non-Executive Director

We were able to capitalise on our balanced business model and long-term service contracts with blue-chip customers

INTRODUCTION

It is a privilege that 2013 – the year I was appointed Chairman – also marked the fifth anniversary of our Company's listing on the London Stock Exchange. Globaltrans was the first freight rail group focused on Russia to go public on an international exchange and I am pleased that in my first Chairman's Statement I am able to report that our Group delivered another year of good progress.

2013 turned out to be a tough year for the freight rail industry, reflecting a deterioration in the macroeconomic climate in Russia over the period. A reduction in economic growth rates meant that, for the most part, overall industry freight rail volumes were under pressure throughout the year. The market showed signs of stabilising during the second half of the year but Russia's total freight rail turnover for 2013 still recorded a 1% year-on-year drop. Globaltrans enjoyed a resilient performance in 2013, as we were able to capitalise on our balanced business model and long-term service contracts with blue-chip customers. Accordingly, the Group outperformed the market,

FREE CASH FLOW

$423.2m*

Group delivered robust Free Cash Flow of US$423.2 million*

DIVIDEND PAY-OUT RATIO

61%

The Group increased its Dividend Pay-out Ratio to 61% compared to 48% in 2012

PROFILE

Michael Zampelas

Chairman of the Board of Directors, Independent Non-Executive Director
Mr. Zampelas joined Globaltrans in 2008 as the Senior Independent Non-Executive Director and has served as Chairman of the Board since April 2013. Mr. Zampelas has more than 30 years of management experience, including as a founding member, Chairman and Managing Partner of accountancy firm Coopers & Lybrand (which later became PricewaterhouseCoopers). He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales.

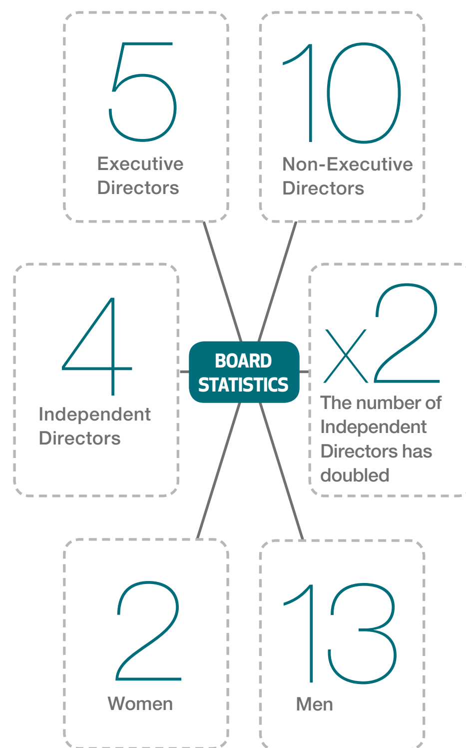
increasing its market share and reinforcing its competitive position. This good operational performance translated into a solid financial result, with the Group reporting Adjusted Revenue up 6% to US$1,407.3 million*, Adjusted EBITDA was slightly down year on year to US$652.7 million* (2012: US$658.2 million*), Cash generated from operations amounted to US$657.7 million, and Free Cash Flow reached US$423.2 million*.

GOVERNANCE

The Group's ultimate strategic objective is to deliver sustainable, returns-oriented, long-term growth to our shareholders through the whole economic cycle. Strong governance is an essential pre-condition to the realisation of this objective.

As Chairman, I am ultimately accountable for the Board's performance and I recognise that a strong Board is central to the long-term success of the Group. As a Board we remain fully focused on maintaining our high standards of governance and we significantly strengthened our governance structure in 2013 to improve the Board's effectiveness and accountability. In March last year the Board decided that, given the increased activities of the Group and the opportunities in the market, it was the appropriate time to restructure the Board, including the appointment for the first time of an independent director as Chairman. At the Annual General Meeting in April 2013, shareholders approved my appointment as Independent Non-Executive Chairman alongside an expanded Board of 15 members, including two additional Independent Non-Executive Directors, four new Non-Executive Directors and two new Executive Directors.

We strengthened our Board with the right range of skills and experience to lead Globaltrans in the next phase of its development. Our new Board members come from a broad spectrum of backgrounds, adding experience in areas such as international commodities markets, freight rail transportation, procurement and finance. By doubling the number of Independent Non-Executive Directors, from two to four, we have also maintained our commitment to strong governance standards. Therefore, I am delighted to



Our policy of maintaining a balanced fleet, which is split between gondola and rail tank cars, again proved its value in the difficult market conditions we encountered in 2013

welcome our new Independent Non-Executive Directors, John Carroll Colley and George Papaioannou, and I look forward to continuing to work alongside them as we take Globaltrans forward. Finally, on behalf of the Board, I would like to thank Alexander Eliseev, my predecessor as Chairman, for his outstanding contribution to Globaltrans during his five years in the role. He of course remains on the Board and his insight as one of the Group's founders continues to be invaluable to defining the vision for future growth.

STRATEGY

Our strategy for growth remains unchanged. We continue to build the business based on our three strategic drivers: a resilient business profile, operational excellence and returns-oriented expansion. The Group's solid operational performance in 2013 was in large part due to the progress we made in delivering in these areas.

The acquisitions of Ferrotrans (renamed from Metalloinvesttrans) and Steeltrans (renamed from MMK-Trans) proved to be excellently timed and were the catalysts behind the Group's market outperformance in 2013. The efficient integration of these fleets delivered significant benefits in the form of operational synergies which Globaltrans was able to capture. The decision not to invest in new rolling stock and instead to increase the Dividend Pay-out Ratio was also an example of our disciplined approach to organic expansion, choosing to invest in new rolling stock only when conditions are favourable and to return money to shareholders when conditions for investment are not optimal.

Our policy of maintaining a balanced fleet, which is split between gondola and rail tank cars, again proved its value in the difficult market conditions we encountered in 2013. The rail tank car segment, which focuses on the historically resilient oil products and oil rail transportation market, produced an excellent result contributing about 50% of the Group's Net Revenue from Operation of Rolling Stock. In the gondola car segment, where Globaltrans has a major presence in the bulk cargo market, the Group profited from its newly-signed service contracts with Metalloinvest and MMK, which helped increase freight volumes, sustain high fleet utilisation levels, and improve the Group's operational effectiveness.

DIVIDEND

The Board will continue its prudent approach to capital allocation and so, for the time being, organic CAPEX remains on hold as we focus on strengthening the Group's balance sheet further.

That the Group performed so strongly in difficult circumstances is due to its outstanding management team and the dedication and determination of its employees

While the Group remains open to selective M&A opportunities that meet its strict investment criteria, during periods of sustained low investment activity the Board believes returning value to shareholders should be a priority and therefore supports a Dividend Pay-out Ratio of not less than 50% of Imputed Consolidated Net Profit in these periods. The Board recommended a dividend of US$110.8 million (62 US cents per ordinary share/GDR) for the financial year ended 31 December 2013, which in Russian Rouble terms is at the level of the previous year[1]. This represents a Dividend Pay-out Ratio of 61% compared to 48% in the previous year. We believe this strikes the right balance between ensuring that we invest to stay at the forefront of our industry and also appropriately remunerate our shareholders.

OUR PEOPLE

In my experience the most important investment any organisation can make is in its people. That the Group performed so strongly in difficult circumstances is due to its outstanding management team and the dedication and determination of its employees. On behalf of the Board I would like to thank them all for their contribution to the Group result in 2013.

SUMMARY

The Group's 2013 performance underscored the strengths of our business: a robust business model, a proven strategy, operational excellence, strong capital discipline and excellent management which together translated into a solid set of results.

The Board remains confident that Globaltrans can continue its solid performance in 2014, while longer term, we expect that the combination of continued industry consolidation and further deregulation will provide opportunities for the Group to deliver further value to shareholders.

MICHAEL ZAMPELAS
Chairman, Independent
Non-Executive Director

1. The proposed dividend amount in Russian Rouble terms equals RUB 3,943 million (calculated at the official US$/RUB FX rate of 35.58 as of 28 March 2014, the date of the Board decision on proposed dividends). This figure is 2% above RUB 3,865 million (US$125.1 million calculated at the official US$/RUB FX rate of 30.89 as of the previous date of the Board decision on proposed dividends on 22 March 2013).

CEO'S REVIEW

Our Group maintained high operational efficiency and won market share

SERGEY MALTSEV
Chief Executive Officer, Executive Director

HIGHLIGHTS

Globaltrans demonstrated a resilient performance in 2013 despite a difficult year for the freight rail transportation industry in Russia brought on by the slowdown in growth of the Russian economy.

The Group's ability to deliver against this backdrop was the result of our robust business model, adaptable strategy and strong execution. Our business model focuses on the balance between gondola and rail tank cars which complement each other through the different phases of the economic cycle. In addition, our strategy of selective acquisitions of suitable captive rail operators along with long-term service contracts and flawless execution provided us with above-market results in the gondola car segment.

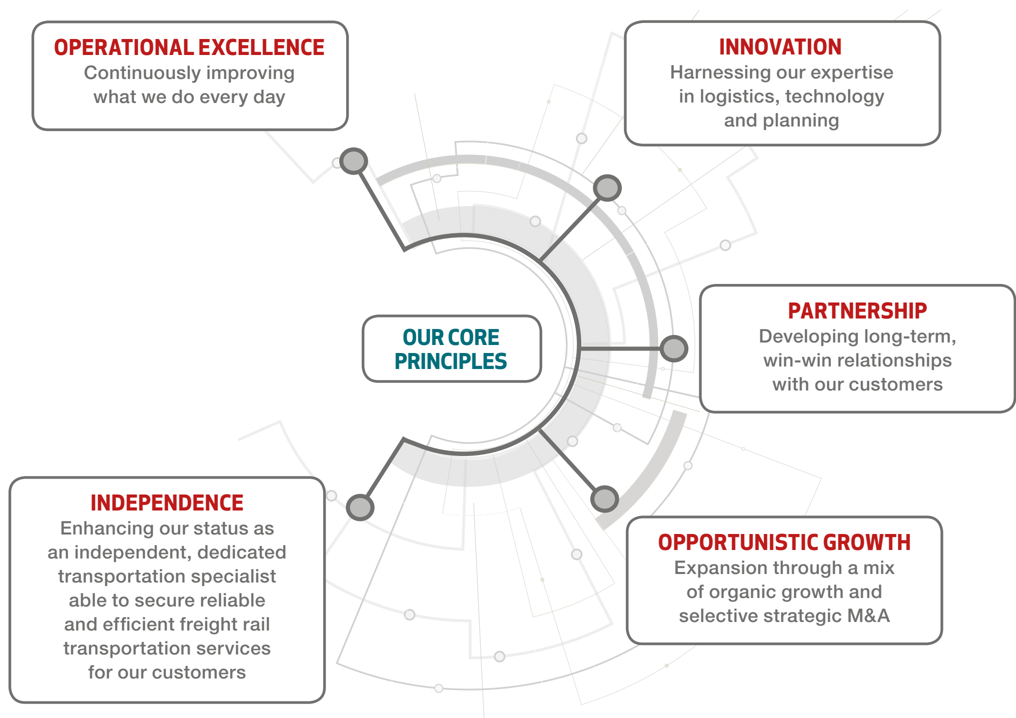
All the above elements ensured that in 2013 our Group maintained high operational efficiency and won market share. Furthermore, Globaltrans' strong cash flow enabled the Group to significantly deleverage the business and to propose an unchanged dividend year on year in Russian Rouble terms[1]. This confirms Globaltrans' commitment to delivering attractive shareholder returns throughout the economic cycle.

PROFILE

Sergey Maltsev

Chief Executive Officer, Executive Director, member of the Board
Mr. Maltsev co-founded Globaltrans and has been instrumental in the development of the private rail freight market in Russia. He is a third-generation railwayman and has spent more than 25 years working in the sector, having been recognised for his contribution to the development of the rail industry by being named an "Honoured Railwayman of Russia". Mr. Maltsev also serves as the Chairman of the presidium of the non-profit partnership "Council of Railway Operators' Market".

1. The proposed dividend amount in Russian Rouble terms equals RUB 3,943 million (calculated at the official US$/RUB FX rate of 35.58 as of 28 March 2014, the date of the Board decision on proposed dividends). This figure is 2% above RUB 3,865 million (US$125.1 million calculated at the official US$/RUB FX rate of 30.89 as of the previous date of the Board decision on proposed dividends on 22 March 2013).



In summary, despite the difficult conditions the Group moved up a gear in 2013 delivering:

- A 13% increase in Freight Rail Turnover, against a market that contracted by 1%;
- An increase in our overall Market Share to 8.3%;
- Further expansion of the Group's Total Fleet to 65,808 units at the end of the past year;
- Successful integration of Ferrotrans and Steeltrans to create a fully integrated gondola fleet platform;
- Solid financial results and strong cash generation.

FINANCIALS

Globaltrans reported a solid financial result in 2013, set against a challenging macroeconomic context and strong comparators for the prior year. Adjusted Revenue grew 6% year on year to US$1,407.3 million*, reflecting a further increase in our average fleet size and a strong performance in the rail tank car segment. This combined with our long-term service contracts in the gondola car segment enabled us to mitigate some of the downward pressure on pricing evident across the industry in 2013.

Net Revenue from Operation of Rolling Stock rose 5% year on year to US$1,217.8 million*. Of that revenue figure, the rail tank segment contributed about half, with the MMK and Metalloinvest long-term service contracts delivering close to a further 30%. Adjusted EBITDA was slightly down year on year to US$652.7 million* (2012: US$658.2 million*) and while the Adjusted EBITDA Margin remains strong, it decreased to 46%* (2012: 50%*) primarily due to soft market conditions in the gondola segment. Profit for the year declined by US$59.9 million or 19% year on year to US$251.6 million mainly driven by depreciation and amortisation charges that rose by US$75.5 million due to the consolidation of recent acquisitions and associated long-term service contracts.

A disciplined approach to capital deployment and a long-term focus on cash generation will be the main drivers of future returns to shareholders. Cash flow remained robust with cash generated from operations at US$657.7 million (2012: US$649.9 million), with the Group delivering Free Cash Flow of US$423.2 million*. This, along with disciplined capital allocation, enabled us to deleverage and provide strong returns to our shareholders by increasing the Dividend Pay-out Ratio.

The Group significantly deleveraged in the second half of 2013 and closed the year with Net Debt of US$910.0 million* and a comfortable 1.4x* Net Debt to Adjusted EBITDA ratio. The Group's Net Debt was reduced further to US$748.6 million* at

OUR FREIGHT RAIL TURNOVER

The Group's Freight Rail Turnover increased 13% year on year in contrast to the overall market which slipped 1% year on year

OUR MARKET SHARE

Market share gains were achieved with the Group's Market Share rising to 8.3% from 6.6% in 2012

MORE INFORMATION

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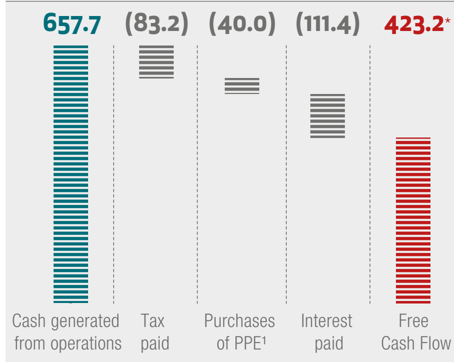
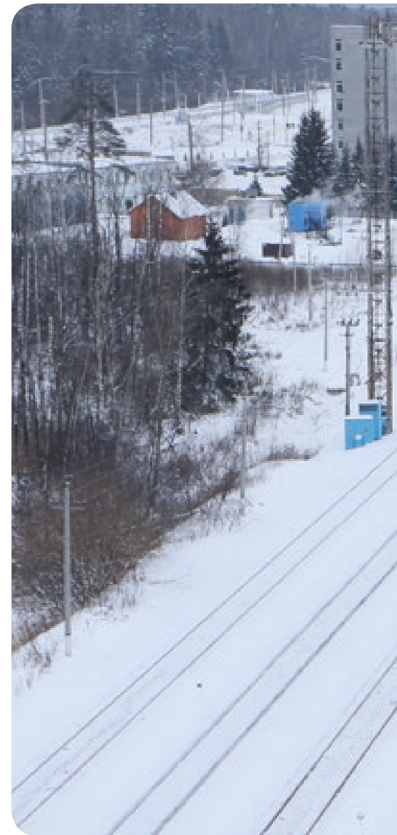
FREE CASH FLOW ANALYSIS



Source: Globaltrans
1. Including maintenance CAPEX.



Operational efficiency is a source of competitive advantage in our industry and at Globaltrans it is something which we are very proficient at delivering

OUR EMPTY RUN RATIO

38%

Empty Run Ratio for gondola cars maintained at 38% in 2013

ADJUSTED EBITDA MARGIN

46%*

Adjusted EBITDA Margin remains strong; it decreased to 46%* (2012: 50%*)

the end of February 2014. The Group's currency risk profile was also improved with Russian Rouble-denominated borrowings representing 94% of the Group's debt portfolio at the end of 2013.

OPERATIONS

Operationally, 2013 was predominantly about delivering operational excellence. With our markets providing little assistance, we focused on self-help measures to ensure that the Group operated well in this environment.

Having completed the Steeltrans (renamed from MMK-Trans) acquisition in February 2013, a key priority was to rapidly integrate both its cargo fleet and that of Ferrotrans (renamed from Metalloinvesttrans), our other captive fleet acquisition, into our existing operations. This was a complex exercise but one that we completed speedily and efficiently, providing important operational synergies.

Operational efficiency is a source of competitive advantage in our industry and at Globaltrans it is something which we are very proficient at delivering. In 2013, we took a further step to improve our productivity by completing the complex task of migrating our entire 40,000 universal gondola fleet to a single dispatching centre. The successful delivery of this project improves our ability to provide our customers with a more reliable and sophisticated service as well as making the fleet and Empty Runs management much easier. In addition, having best-in-class logistics will help both to support the profitability of our gondola segment and enable it to compete in tough markets.

Improving our logistics and decreasing our Empty Run Ratio remains a core objective for management as the cost of running unloaded railcars remains the single largest cash cost item for Globaltrans. Our large-scale service contracts cover interconnected cargo bases allowing us to plot much more efficient routes and match cargoes and inbound and outbound traffic more effectively. As a result, we completed 2013 with a very solid Empty Run Ratio for gondola cars of 38%, the lowest annual level in the last five years.

The other focus was on our customers. Globaltrans is a leader in the provision of sophisticated freight logistic solutions and was the first company to identify how important outsourcing would become. The quality of our service proposition combined with the efficiency of our operations generates strong customer loyalty. This is illustrated by two recent key developments that have seen the extension of our service contract with Metalloinvest by another 19 months to the end of 2016 as well as an increase in the service volume under our long-term contract with MMK (valid to the end of February 2018) from 70% to 80% throughout 2014. The success of both outsourcing contracts illustrate the great opportunities I believe exist for this partnership approach, which Globaltrans is uniquely placed to offer because of our asset base and systems, combined with our strong service culture, which are unmatched by our competitors.

OUTLOOK AND PRIORITIES FOR 2014

The business conditions and pricing environment in the Russian rail freight industry at the beginning of 2014 remain difficult and will continue to depend on overall macroeconomic and political developments. With approximately 85% of Russian freight turnover carried by rail (excluding pipeline traffic), any recovery in the economy will be positive for the freight rail transportation sector. Moreover, the recent Russian Rouble depreciation could potentially provide a stimulus for key export industries that, along with previously announced large infrastructure projects, could lead to an improvement in the freight rail market in general.

Significant industry developments in 2014 include the freezing of RZD-regulated infrastructure and locomotive tariffs for Empty Runs, which removes inflationary pressure from the largest cost item for rail operators. In addition the anticipated new regulation on the accelerated retirement of old railcars would improve the market's supply and demand balance and may create opportunities for organic growth.

Against this background the focus of Globaltrans' management team in 2014 is to:

- Extract the benefits of the centralised management of the gondola car fleet and maintain high levels of operating efficiency;
- Optimise costs with a focus on administration and unit costs in repair and maintenance;
- Reduce Group debt further in order to help position the Group for future opportunistic growth; and
- Continue to examine opportunities to create additional value via selective M&A and/or organic expansion.

As the vast majority of the Group's revenues, costs, debt and CAPEX is denominated in Russian Roubles, the recent depreciation of the Russian Rouble vs. US Dollar exchange rate has had a broadly neutral effect on the Group's results in Russian Roubles.

In terms of growth, the Russian freight rail market remains attractive. We believe the combination of a still fragmented industry in which a high share of railcars are controlled by captive rail operators will offer interesting prospects for a strong player with low leverage and robust free cash flow generation during the years to come.

SERGEY MALTSEV
Chief Executive Officer,
Executive Director

STRATEGY Q&A WITH SERGEY MALTSEV, CEO

The Group is in good shape as we move into 2014

We have a clear strategy to drive shareholder value

Our Vision is to be Russia's leading independent private freight rail group and the partner of choice for blue-chip customers in Russia.

Q: What are the strategic highlights of the Group's performance in 2013?
I am very pleased that despite the challenging conditions in our industry and the economy generally, we saw our business get stronger in 2013.

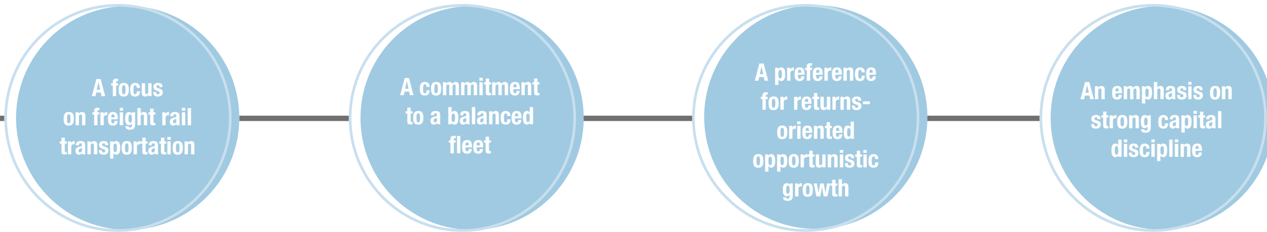
In terms of delivering on our strategy, I would highlight two areas. The first is strategic M&A. In February 2013 we completed the transaction to acquire the captive freight rail operator of MMK, one of Russia's largest steelmakers, which included a long-term service contract with MMK. This was our second largest outsourcing deal after the acquisition of Ferrotrans (renamed from Metalloinvesttrans). Both acquisitions are strategically important as the associated service contracts cover the majority of our owned non-oil fleet. This has given us a unique advantage in terms of how we plan and manage our logistics, making it far easier to combine routes and match inbound and outbound traffic.

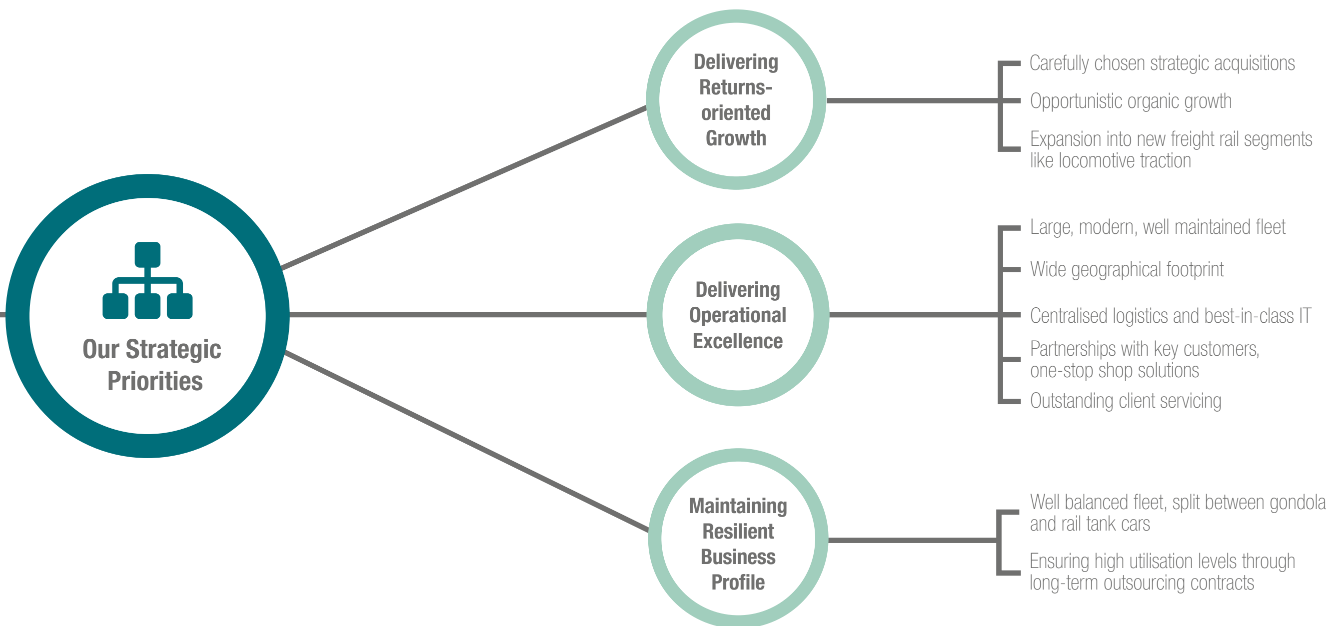
The second area to mention is our focus on operational excellence. Last year we successfully completed two important projects: integrating all of our acquired businesses into our operations and completing the complex task of migrating our entire 40,000 unit gondola fleet to a single dispatching centre.

Given the complexities involved in both tasks I was delighted with the successful outcome. The result is a very powerful, efficient operating platform based around one fully integrated gondola fleet covering a wide geography of operations managed from a single operational hub.

Q: Were there any aspects of your strategic delivery in 2013 that gave you cause for concern?
Operationally our performance was solid in 2013. We also made progress against our strategic objectives: a resilient business profile, operational excellence and returns-oriented expansion.

The one area of strategic delivery that remains a source of disappointment is the locomotive sector. Deregulation





of locomotive traction is absolutely critical to improving the reliability of the entire rail system. And as a Group we have made it clear that we are ready and willing to lead the private sector's response to locomotive deregulation. So it is disappointing to report that despite lots of rhetoric on this subject, there has actually been very little concrete progress made over the course of 2013.

Q: What are the key strengths of your business model?
It is a mixture of things. Our management style has always been to run the business in a very pragmatic but disciplined way, and that approach has worked very well. Strategically, the fact that our business model is very focused has been important: we are a specialist freight rail transportation business; we are committed to growth but it needs to be matched by resilience. Whether it is organic or via acquisition, we are very disciplined in how we go about allocating our capital. And this approach is underpinned by a fierce financial discipline which means we prefer to retain a strong balance sheet and we don't like excessive leverage.

The other areas that I would also point to are our commitment to innovation; we are constantly trying to stay one step ahead of competition by creating innovative solutions. The second aspect is our client service, where our partnership approach has proved very effective as you can see from the success we have had putting in place

long-term outsourcing deals with the likes of MMK and Metalloinvest.

We came into 2014 in a strong position, armed with a large modern diversified fleet, one of the best operational platforms in the industry and long-term contracts with our key clients. Our resilient performance in what was a challenging macro environment in 2013 is a clear indication of the strength of our business model.

Q: What actions did management take to respond to the macro headwinds?

As an entrepreneurial management team, we have a reputation for being decisive and proactive in how we manage the business. For instance, over the last two years we have taken a number of decisions regarding our captive fleet acquisitions. And these have enabled us to maintain high fleet utilisation levels and deliver above-market results in the gondola car segment, as we were able to build much more efficient logistics between interconnected cargo bases. In 2013, we did a lot of detailed work around improving our logistics, especially the decision to unify our gondola fleet. This action helped protect the Group from the industry headwinds and meant we could maintain low levels of Empty Runs across the business. The other key action we took last year was to suspend our organic CAPEX programme. Our emphasis is on making sure that we do not misallocate capital and, in light of the difficult market conditions, we felt that there would be better opportunities to invest once the market recovered.

The solid profitability of the business remains one of our key priorities. In this regard in 2014 we will continually focus on cost optimisation, in particular in the area of administration and unit costs in repair and maintenance.

Q: Can you please comment on your investment plans?

Currently our organic CAPEX programme is on hold, pending an improvement in the market. This opportunistic but measured approach to investment has worked well in the past enabling us to invest at the most attractive periods of the economic cycle.

We believe that despite the current macroeconomic environment, the state of development of the Russian freight rail industry continues to offer growth opportunities for well-capitalised and efficient players like Globaltrans.

Q: Do you plan to develop the partnerships with your key clients further?

Developing long-term partnerships with our clients is fundamental to our business model. This approach is something that we pioneered, shifting the basis of the commercial relationship from being that of just another transport supplier to one where Globaltrans is a key strategic partner embedded within our clients' supply chain. That message has resonated particularly strongly with the major Russian corporates who require the very highest levels of professionalism and responsiveness in their supply chain. So we are definitely looking to secure more long-term partnering agreements with major clients. By way of illustration, in the case of our customer Metalloinvest, the partnership was so successful in 2013 that the timeframe of our cooperation has been extended and we will now be servicing 100% of their freight rail transportation needs until the end of 2016. In addition, we agreed to increase the service volume

under our long-term contract with MMK (valid to the end of February 2018) from 70% to 80% throughout 2014.

Q: What are the Group's strategic priorities for 2014?

The Group is in good shape as we go into 2014. We have a clear strategy and a resilient business model. We are profitable, we have a strong balance sheet and our formula for investment is tried and tested.

I would group our strategic priorities into three areas: the balance sheet; options for growth; and operational efficiency. Our first priority is to maintain our balance sheet strength, and so we will be concentrating on further deleveraging and reducing our debt. This links to the second priority which is to continue to identify and monitor growth opportunities and be ready to move quickly should the need arise. Our third priority is around cost optimisation, extracting greater synergies from the business – particularly around the management of our gondola fleet. And of course, we will continue to focus on creating shareholder value through pursuing attractive investment opportunities and solid dividends.

CASE STUDY

Centralisation of gondola logistics completed

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

In 2013 we successfully completed the integration of our recently acquired businesses. Now all of our 40,000 gondola cars are centrally managed from our dispatching centre, further enhancing our robust operational platform. Centralising all of our gondola operations within one integrated system provides a single, accurate overview of the transportation processes, thus speeding up decision making and proper execution.

Centralising our logistics was a logical step in response to the increased size of our gondola operations, enabling us to streamline management and extract synergies from the combination of cargo bases under sizeable long-term contracts with our large metallurgical clients. Our round-the-clock logistic control centre runs a proprietary information system providing optimal route calculations and delivery cost estimates as well as allowing our clients to trace freight movement at all stages of transportation, virtually in real time.

Our integrated logistics system also fully consolidates the repair scheduling and freight rail transportation processes. It allows us to focus on the best repair locations, optimising repair costs and minimising the time spent in repairs.

Centralising our logistics was a logical step in response to the increased size of our gondola operations

CENTRALISED LOGISTICS

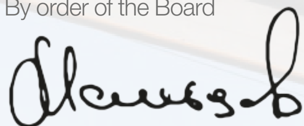
c.40,000

Gondola cars are now operated from a single dispatching centre

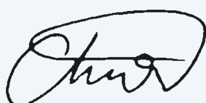
DIRECTORS' RESPONSIBILITY

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



SERGEY TOLMACHEV
Director

Management Review

> "In the context of a difficult market, Globaltrans' resilient underlying operational performance stood out"

SENIOR MANAGEMENT TEAM

Globaltrans' senior management team come from strong industry backgrounds and all approach their work with energy and passion. They are actively involved in the Group's strategic direction, combining business acumen with a highly entrepreneurial management style that has been key to our history of successful growth

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

Mr. Maltsev co-founded Globaltrans and has been instrumental in the development of the private rail freight market in Russia, which has seen him recognised as an "Honoured Railwayman of Russia". He has spent more than 25 years working in the rail sector.

Vladimir Prokofiev
Deputy Chief Executive Officer, CEO of BaltTransServis

Mr. Prokofiev has served as CEO of BaltTransServis (a Globaltrans subsidiary) since 1999. With more than 40 years of experience in the rail sector, he is one of the industry's most experienced managers. He is also a recipient of the "Honoured Railwayman of Russia" Award.

Alexander Shenets
Chief Financial Officer

Mr. Shenets has been the CFO of Globaltrans since the Group's establishment. He has more than 12 years of experience in senior finance positions, mostly gained in the rail sector. He previously held positions at a number of transportation companies.

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

Mr. Shpakov joined New Forwarding Company (a subsidiary of Globaltrans) in 2003 and has been 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 in the transport sector. He is also a recipient of the “Honoured Railwayman of Russia” Award.

Vyacheslav Stanislavsky
Deputy Chief Executive Officer, Operations

Mr. Stanislavsky has worked for New Forwarding Company (a subsidiary of Globaltrans) since March 2010 as Deputy General Director for Operations and Commerce and as First Deputy General Director since April 2011. He has more than 30 years of experience in the rail industry.

Irina Alexandrova
Deputy Chief Executive Officer, CEO of Sevtekhnotrans

Ms. Alexandrova, the Group’s Deputy Chief Executive Officer, has served as CEO of Sevtekhnotrans (a Globaltrans subsidiary) since September 2006. She has more than 15 years of management experience in the railway industry.

Roman Goncharov
Head of Treasury

Mr. Goncharov has served as CFO of New Forwarding Company (a subsidiary of Globaltrans) since 2007 and has over 12 years of management experience. His qualifications include an MBA from the Moscow International School of Business.

Alexander Storozhev
Chief Procurement Officer, Executive Director, member of the Board

Mr. Storozhev joined the Group as Director for Transport in Sevtekhnotrans in 2003 and has worked in senior management positions of the railway sector for over 20 years. His main responsibility is the procurement of new rolling stock. He was the driving force behind the successful implementation of the Group’s capital investment programmes.

OUR MARKET

Growing operations on the back of a challenging market

Russia's freight rail sector endured a difficult time in 2013. Overall economic growth in Russia slowed to under 1.3%, down from 3.4% in 2012, leading to softer conditions in the freight transportation sector. These conditions persisted for most of 2013 and despite the market stabilising in the latter part of the year, overall Russian freight rail turnover fell by 1% year on year.

In the context of a difficult market, Globaltrans' resilient underlying operational performance stood out. The Group's balanced fleet operating model and long-term service contracts helped Globaltrans counteract the effects of the subdued market conditions and lower volumes. As a result, the Group once again outperformed, delivering a 13% year on year increase in Freight Rail Turnover to 155.5 billion tonnes-km. Transportation Volume increased by 22% year on year, with the Group transporting 102.4 million tonnes of various cargoes. Globaltrans continued to capture market share during 2013, with its overall share of the market rising to 8.3% from 6.6% in the previous year.

HISTORICAL DEVELOPMENT IN OVERALL RUSSIAN FREIGHT RAIL TURNOVER

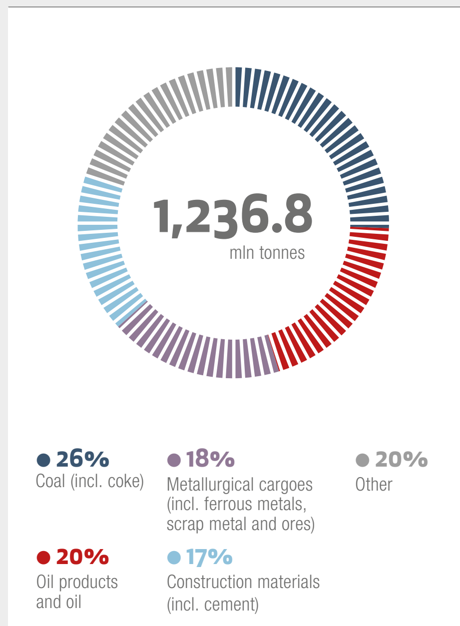
bln tonnes-km

Year	Change	Value
2013	-1%	2,195.8
2012		2,222.0
2011		2,126.6
2010		2,010.6
2009		1,865.3

Source: Rosstat

OVERALL RUSSIAN FREIGHT RAIL VOLUMES BY TYPE

2013



- 26% Coal (incl. coke)
- 18% Metallurgical cargoes (incl. ferrous metals, scrap metal and ores)
- 20% Other
- 20% Oil products and oil
- 17% Construction materials (incl. cement)

Source: Rosstat

OVERALL RUSSIAN FREIGHT RAIL VOLUMES DEVELOPMENT

Coal (incl. coke), mln tonnes

Year	Change	Value
2013	+1%	322.3
2012		320.3
2011		309.1
2010		298.9
2009		285.9

Source: Rosstat

Oil products and oil, mln tonnes

Year	Change	Value
2013	-3%	250.3
2012		258.2
2011		250.0
2010		252.7
2009		228.0

Source: Rosstat

Metallurgical cargoes (incl. ferrous metals, scrap metal and ores), mln tonnes

Year	Change	Value
2013	-3%	218.0
2012		223.6
2011		228.4
2010		221.0
2009		200.1

Source: Rosstat

Construction materials (incl. cement), mln tonnes

Year	Change	Value
2013	-5%	204.5
2012		215.4
2011		192.2
2010		175.9
2009		157.4

Source: Rosstat

OPERATIONAL PERFORMANCE

Highlights

- **During 2013 integration of the fleets of Ferrotrans and Steeltrans was successfully completed. The Group's entire fleet of 40,000 universal gondola cars is now managed from a single dispatching centre, providing customers with a more reliable and efficient service offering. In addition, this central hub also enables the more efficient management of Empty Runs as well as maintenance and repair programmes;**
- **Globaltrans continued its market outperformance, the Group's Freight Rail Turnover increased 13% year on year to 155.5 billion tonnes-km in contrast to the overall market which slipped 1% year on year on the back of macroeconomic headwinds;**
- **Market share gains were achieved with the Group's Market Share rising to 8.3% from 6.6% in 2012;**
- **Operational excellence continued with the Empty Run Ratio for gondola cars at a solid 38%, the lowest annual level in the last five years, while the Total Empty Run Ratio improved to 53% (2012: 57%);**
- **Average Price per Trip declined 6% year on year in Russian Rouble terms with Average Distance of Loaded Trip down 3% year on year;**
- **Total Fleet size increased 6% year on year to 65,808 units at the end of 2013 with an average age of Owned Fleet of about eight years.**

Strong performance across all business segments

The Group's traditional focus has always been to service Russia's key industrial sectors and this remains the case. The Group's fleet structure reflects this focus and is split between gondola cars (used to transport bulk cargoes like metallurgical products and coal) and rail tank cars (used to transport oil products and oil). Overall the Group's performance across its core freight segments was solid during 2013.

Metallurgical cargoes

Metallurgical cargoes (including ferrous metals, scrap metal and iron ore) continued to be the largest single cargo segment for Globaltrans, contributing 56% of the Group's Freight Rail Turnover in 2013.

The strength of Globaltrans' performance in this segment reflects its success in capitalising on the unique nature of the logistics required to service large metallurgical groups and their suppliers. The logistics set-up for metallurgical and

CONTINUED ON P27

CASE STUDIES

Win-win solutions for Globaltrans and its clients

Our long-term partnerships with blue-chip customers have enabled us to grow in a challenging market and provide synergies which create operational advantages

Nazim Efendiev,
First Deputy CEO – Commercial Director of Management Company Metalloinvest LLC

Under the long-term service contract we signed with Globaltrans in 2012, its subsidiaries took responsibility for the freight rail transportation of 100% of Metalloinvest's inbound and outbound cargo flows including the transportation of concentrate, pellets, briquettes, iron and steel products.

During 2013, there were numerous occasions that demonstrated how effectively we had come to operate together in this new environment. Our partners at Globaltrans have proven themselves to be highly professional service providers and our cooperation has been marked by joint efforts to address challenges as they emerge and to meet fully our respective commitments. The Group's advanced information technologies allow us to optimise logistics flows, improve planning and reduce downtime and costs. This track record of successful collaboration fuelled our decision to extend our long-term service contract to the end of 2016.

Vladimir Andriyanov,
MMK Director for Logistics

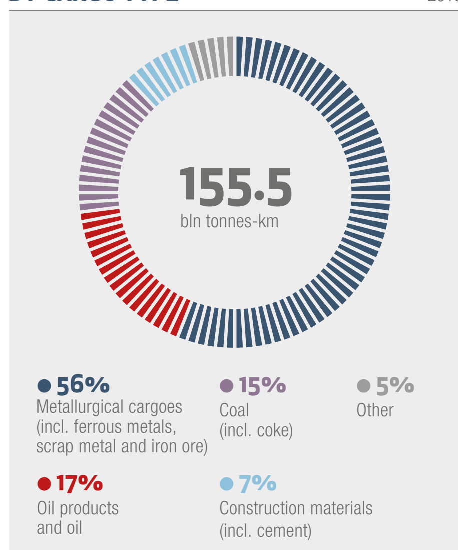
In 2013 we extended our cooperation with Globaltrans and entered into a long-term contract for Globaltrans' subsidiaries to provide rail transportation for the vast majority of MMK group cargoes.

Our relationship has been developing very constructively, with Globaltrans' modern fleet management systems fully able to meet our transportation requirements. By overseeing and supervising the supply of railcars and providing real-time location tracking throughout the trip, Globaltrans enables us to quickly address our changing freight transportation needs and to exchange information in real time.

Globaltrans' management teams remain completely focused on promptly supplying the needed rolling stock and meeting their contractual terms and obligations related to railcar supply and loading and unloading schedules. MMK and Globaltrans have worked consistently well together to find mutually acceptable solutions at all times.

OUR FREIGHT RAIL TURNOVER BY CARGO TYPE

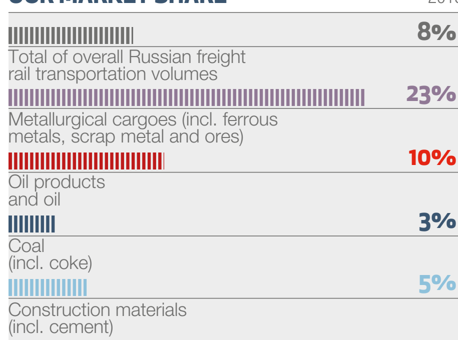
2013



Source: Globaltrans

OUR MARKET SHARE

2013



Source: Globaltrans, Rosstat

> The Group's significant railcar fleet means it enjoys a strong reputation and market position in the segment

FROM P25

steel producers with both inbound and outbound traffic is central to the Group's gondola car operational platform, creating highly efficient gondola logistics with low Empty Runs.

As a proportion of overall Russian freight rail transportation volumes, the metallurgical cargoes segment accounted for 18% in 2013. Despite solid domestic demand, it was a challenging year for the metallurgical industry as a whole. The metallurgical production index registered a year-on-year decline of 2.3% in the face of subdued global export demand for Russian commodities. This weaker performance caused sluggish market conditions for rail operators. As a result, overall Russian transportation volumes of metallurgical cargoes declined 3% year on year in 2013.

Despite the softer market environment, Globaltrans' own performance was again very strong in this segment with Freight Rail Turnover increasing by 16% year on year to 87.6 billion tonnes-km. The growth was across all individual freight products, with iron ore turnover up 18%, ferrous metals up 7%, and scrap metal up 81%. Globaltrans significantly enhanced its Market Share which increased to 23% in 2013 compared to 17% in the previous year.

The Group's performance reflected the high quality of its service offering and its long-term service contracts with two of Russia's largest metallurgical companies, which helped the Group to sustain high levels of utilisation across the fleet and provided a substantial boost to freight volumes.

Oil products and oil

The oil products and oil segment was the second biggest Freight Rail Turnover contributor for the Group in 2013. During the period, this segment contributed 17% of Globaltrans' Freight Rail Turnover or 25.7 billion tonnes-km. The Group's Market Share in this segment remained stable at level of 10%. The Group's operations in this segment transported 23.9 million tonnes of oil products and oil in 2013, a decline of 5% year on year, primarily on the back of the Group's Average Number of Rail Tank Cars Operated down 9% year on year.

Oil products and oil is the second largest segment in the Russian freight rail market and historically has been the most stable. In 2013, this segment accounted for 20% of the overall Russian transportation volume. Rail is responsible for the transportation of the majority of refined products and fuel oil, whilst crude oil is primarily transported by pipelines.

Total Russian transportation volumes of oil products and oil registered a year-on-year decline of 3% in 2013, as the share of crude oil transported by rail fell. The main factor behind this decline was the launch of the Eastern Siberia-Pacific Ocean (ESPO-2) pipeline at the end of 2012. The drop in crude oil volumes was partly offset by an increase in production volumes of refined products (Russia's oil products production index registered a rise of 1.1% year on year in 2013).

The Group's significant railcar fleet means it enjoys a strong reputation and market position in the segment. Consequently Globaltrans continued to leverage its position as a provider of block train services, using its own locomotives to run block trains of Group-operated railcars carrying oil products bound for a single destination. The use of block trains improves delivery times and rolling stock utilisation.

Coal

Coal (including coke) remains the largest segment of Russia's freight rail transportation market. In 2013, it accounted for 26% of overall Russian freight rail transportation volumes. Russian freight rail

PERFORMANCE HIGHLIGHTS OF GLOBALTRANS' FREIGHT RAIL TRANSPORTATION BUSINESS

	2012	2013	Change
Freight Rail Turnover (incl. Engaged Fleet), billion tonnes-km	137.8	155.5	13%
Transportation Volume (incl. Engaged Fleet), million tonnes	83.9	102.4	22%
Freight Rail Turnover (excl. Engaged Fleet), billion tonnes-km	116.7	131.0	12%
Transportation Volume (excl. Engaged Fleet), million tonnes	74.3	86.0	16%
Market Share	6.6%	8.3%	–
Average Rolling Stock Operated, units	46,825	53,445	14%
Average Number of Loaded Trips per Railcar	25.0	25.1	1%
Average Distance of Loaded Trip, km	1,561	1,521	-3%
Average Price per Trip, US$	992	907	-9%
Average Price per Trip, RUB	30,813	28,947	-6%
Total Empty Run Ratio	57%	53%	–
Empty Run Ratio for gondola cars	38%	38%	–

Source: Globaltrans

volumes of coal were broadly unchanged in 2013, reporting a 1% increase year on year. The Russian coal production decreased 2.9% in the same period.

Coal is Globaltrans' third biggest cargo, accounting for 15% of the Group's Freight Rail Turnover in 2013. Over the past year, the Group increased its operations in this segment, with its Freight Rail Turnover growing by 26% to 23.2 billion tonnes-km and Market Share up to 3% in 2013. Increase in the Group's operations in this segment was mainly driven by effective routings enabled by recently signed long-term service contracts.

Construction materials

Construction materials continue to be an important segment of the Russian freight rail market. The size of the country means that construction sites are widely dispersed and consequently construction materials are one of the key cargoes for loading gondola cars on return routes. In 2013 construction materials (including cement) accounted for 17% of total Russian freight rail transportation volumes.

After exhibiting strong growth in 2012, overall Russian freight rail transportation volumes of construction materials fell 5% in 2013, with declines being recorded across all freight categories. The main cause for the decline was the fact that in 2013 a large number of major infrastructure construction projects were completed.

Despite the market conditions, Globaltrans increased its involvement in the construction materials segment, building efficient logistic schemes with low Empty Runs. The Group's Freight Rail Turnover increased by 42% year on year to 11.2 billion tonnes-km in 2013, taking its contribution to the Group's overall Freight Rail Turnover to 7%. The significant growth in the Group's freight volumes saw its share of the construction materials market increase to 5% in 2013.

Benefiting from long-term partnerships

Globaltrans has a high quality, stable customer base spread across Russia and the CIS region. Its main clients are the large industrial blue-chip companies in Russia, including leading mining and metal companies like Evraz, Mechel, Metalloinvest, MMK, Severstal and TMK, as well as major energy companies such as Gazprom Neft, Lukoil and Rosneft (including RN Holding).

The scale of Globaltrans' operations, its in-depth understanding of customers' transportation patterns and its sophisticated logistics capabilities means the Group is able to provide its customers with the best-in-class service and excellence they demand. This long-term focus on customer service means that Globaltrans has developed very close relationships with the vast majority of its large customers, resulting in consistently high levels of customer retention.

The Group is able to provide its customers with the best-in-class service and excellence they demand

NET REVENUE FROM OPERATION OF ROLLING STOCK BY LARGEST CLIENTS (INCL. THEIR AFFILIATES AND SUPPLIERS)

	2012	2013
RN Holding (former TNK-BP)	21%	28%
MMK	13%	17%
Metalloinvest	13%	13%
Evraz	7%	3%
Gazprom Neft	6%	8%
Lukoil	4%	2%
Rosneft	2%	1%
Severstal	2%	2%
Mechel	2%	1%
TMK	1%	1%
Other (incl. small and medium enterprises)	28%	23%

Source: Globaltrans

Globaltrans was the first company to recognise that the increasing complexity of its clients' commercial arrangements required much deeper and more integrated commercial relationships. In 2013 the Group continued to expanding its long-term relationships further with its key clients in the metallurgical industry.

In 2013 the Group signed a long-term service contract with MMK as part of its acquisition of MMK's captive freight rail business, which was completed in February 2013. Under the terms of the contract, Globaltrans will manage at least 70% of MMK's rail cargo flows for a period of five years. As it was agreed in March 2014, the Group will service 80% of MMK's rail cargo volumes throughout 2014.

In 2014 Globaltrans also extended the timeframe of its cooperation with Metalloinvest, another key client in the metallurgical industry. The new arrangement, which covers 100% of Metalloinvest's freight rail transport requirements, extends Globaltrans' service contract through to the end of 2016.

The MMK and Metalloinvest contracts secure demand for the majority of the Group's owned non-oil railcar fleet.

A partnership on the basis of long-term service contracts is a win-win solution for both clients and Globaltrans. This approach reduces clients' shunting costs and improves the speed and reliability of cargo off-take. For Globaltrans, such contracts secure a high level of fleet deployment on a long-term sustainable basis as well as providing significant operational advantages regarding logistics.

Maintaining operational excellence

Operational excellence, continuously improving the business's performance day by day, is a prerequisite for success in the rail logistics industry. Not only do customers expect it but, in a competitive market, high productivity is important to staying competitive.

In the past year, the Group completed the complex task of migrating the full management of its large 40,000 unit gondola fleet to a single dispatching centre as well as successfully combining the cargo bases of its recently acquired captive rail operators. Globaltrans now operates a fully integrated fleet of gondola cars covering a wide geography of operations, all managed from its single dispatching centre. The Group's operational hub is built around New Forwarding Company, Globaltrans' main gondola subsidiary.

Investing in technology is a key feature of Globaltrans' business model and central to efficient fleet management. Centralised logistics, combined with state-of-the-art analytics, promote intelligent transport solutions by enabling gondola runs between commodity plants to be linked with deliveries to customers, for example. This reduces the number of empty kilometres and increases railcar capacity utilisation. The Group's advanced destination and traffic management systems are vital to this process, generating both operational efficiencies and customer benefits. The proprietary fleet management systems calculate the most efficient logistics as early as the shipment planning stage, enabling low Empty Runs and optimised fleet repair and maintenance schedules. In addition, the sizeable long-term contracts with interconnected metallurgical plants (ores, metallurgy, coal) provide a recurring competitive advantage in logistics, rewarding the business through the efficient combination of inbound and outbound traffic.

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 Run Costs are the largest single operating cash cost for the Group. Converting empty trips to loaded runs means that more cargoes can be carried in more journey legs, thereby driving better revenue and cost performance. In the last five years the Group has continuously improved its Empty Run Ratio for gondola cars reducing it from 46% in 2009 to 38% in 2013.

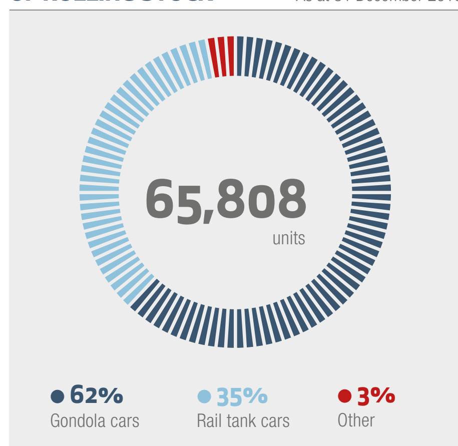
OUR MODERN FLEET

8yrs

Average age of Owned Fleet at the end of 2013

OUR TOTAL FLEET BY TYPE OF ROLLING STOCK

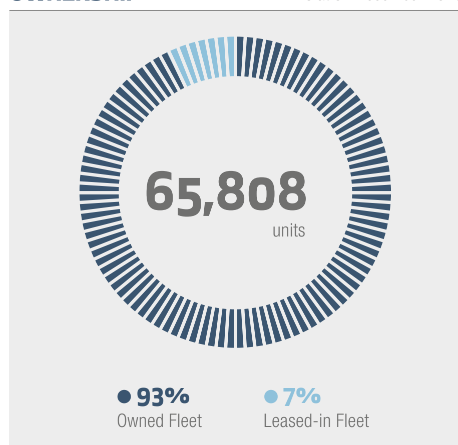
As at 31 December 2013



Source: Globaltrans

OUR TOTAL FLEET BY OWNERSHIP

As at 31 December 2013



Source: Globaltrans

Large, modern, well-balanced fleet

Scale is a key differentiator in the context of the Russian freight sector and Globaltrans operates one of the largest and the most modern rolling stock in the industry. The Group's Total Fleet stood at 65,808 units as at year end 2013, an increase of 6% compared to the previous year. This increase was primarily the result of the addition of the rolling stock fleet belonging to the captive operator of MMK, which the Group acquired in February 2013. The majority of the acquired fleet was comprised of universal gondola cars.

Alongside fleet size, rolling stock reliability is another important factor in customer retention and ensuring a high-quality service offering. In this context, the age of the railcar fleet is critical for its reliability. The average age of the Globaltrans' Owned Fleet as at the year end was approximately eight years making it one of the most modern large fleets in the market.

The backbone of the Group's fleet has been historically comprised of the fleet in ownership and in addition, with Leased-in and Engaged Fleets deployed in order to enhance operational efficiency and react quickly to changes in demand without incurring significant capital expenditure. As of the end of 2013, the Group's Owned Fleet amounted to 61,124 units or 93% of the Total Fleet. The remaining 7% or 4,684 units of rolling stock (primarily rail tank cars) were leased-in from third parties. After the acquisition of captive rail operators in 2012-2013, the Group significantly increased its deployment of rolling stock subcontracted from third-party rail operators (Engaged Fleet) to meet customer demand not already covered by the Group's Owned and Leased-in Fleets.

The resilience of the Group's business model is underpinned by a commercially well-balanced fleet split between universal gondola cars and rail tank cars.

The Group's commitment to this model has consistently proved its worth, enabling the Group to deliver stable operational performances during different phases of economic cycle.

As at year end 2013, the Group's gondola fleet accounted for 62% of the Total Fleet or 40,628 units. Universal gondola cars provide significant operational flexibility, enabling the transportation of various different bulk cargoes, meaning that the Group can respond quickly to changes in the market environment as well as optimise Empty Runs.

Rail tank cars are used primarily for the rail transportation of oil products. This segment has historically exhibited relative stability in volumes through different economic cycles. As at the end of 2013 the Group's fleet of rail tank cars consisted of 23,212 units or 35% of the Group's Total Fleet.

In 2013 Globaltrans continued to use its own locomotives in block trains primarily in the oil products and oil segment of the market. The Group's locomotive fleet totalled 75 units as at the end of 2013, including 10 electric locomotives acquired as a part of the Steeltrans acquisition. The Group plans to return all these 10 locomotives gradually back into service after capital repairs.

The majority of the Group's rolling stock is deployed in its core freight rail transportation business. In 2013 the Average Rolling Stock Operated increased 14% year on year to 53,445 units, mainly reflecting the consolidation of the fleet acquired as a part of the acquisition of Steeltrans. Globaltrans' core service offering is effectively complemented by the operational leasing business, with 10,383 units of rolling stock leased out as at the end of the past year. The Leased-out Fleet is primarily comprised of rail tank cars, with the majority of business operations concentrated in the Group's Estonian subsidiaries.

FINANCIAL REVIEW

Globaltrans reported a solid financial result in 2013, set against a challenging macroeconomic context and strong comparators for the prior year

Highlights

$1,407.3m*

Adjusted Revenue grew 6% year on year to US$1,407.3 million*, reflecting a further increase in the Group's average fleet size and a strong performance in the rail tank car segment

46%*

Adjusted EBITDA was slightly down year on year at US$652.7 million* (2012: US$658.2 million*) with an Adjusted EBITDA Margin of 46%* (2012: 50%*)

$657.7m

Cash generated from operations remained robust at US$657.7 million (2012: US$649.9 million)

$423.2m*

The Group delivered robust Free Cash Flow of US$423.2 million*

1.4x*

The Group significantly deleveraged in the second half of 2013 and closed the year with Net Debt of US$910.0 million* and a comfortable 1.4x* Net Debt to Adjusted EBITDA ratio

94%

The Group's currency risk profile improved further with Russian Rouble-denominated borrowings representing 94% of the Group's debt portfolio at the end of 2013 (2012 end: 91%)

$251.6m

Profit for the year declined by US$59.9 million or 19% year on year to US$251.6 million, mainly driven by depreciation and amortisation charges that rose by US$75.5 million due to the consolidation of recent acquisitions and associated long-term service contracts

61%

The Board recommends a dividend of US$110.8 million (62 US cents per ordinary share/GDR), flat in Russian Rouble terms year on year[1]. This represents a Dividend Pay-out Ratio of 61% compared to 48% in 2012

1. The proposed dividend amount in Russian Rouble terms equals RUB 3,943 million (calculated at the official US$/RUB FX rate of 35.58 as of 28 March 2014, the date of the Board decision on proposed dividends). This figure is 2% above RUB 3,865 million (US$125.1 million calculated at the official US$/RUB FX rate of 30.89 as of the previous date of the Board decision on proposed dividends on 22 March 2013).

Results in detail[1]

The following table provides the Group's key financial and operational information for the years ended 31 December 2013 and 2012.

EU IFRS financial information	2012 US$ mln	2013 US$ mln	Change %
Revenue	2,114.3	**2,327.5**	10%
Including:			
Total revenue – operator's services	1,969.3	**2,196.6**	12%
Total revenue – operating lease	135.8	**118.5**	-13%
Total cost of sales, selling and marketing costs and administrative expenses	(1,579.0)	**(1,877.0)**	19%
Operating profit	536.5	**451.7**	-16%
Finance costs – net	(124.5)	**(109.8)**	-12%
Profit for the year	311.6	**251.6**	-19%
Attributable to:			
Owners of the Company	258.0	**181.7**	-30%
Non-controlling interests	53.6	**69.9**	31%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in US$ per share)[2]	1.56	**1.02**	-35%
Cash generated from operations	649.9	**657.7**	1%
Tax paid	(81.8)	**(83.2)**	2%
Net cash from operating activities	568.1	**574.5**	1%
Net cash used in investing activities	(1,313.2)	**(233.9)**	-82%
Net cash (used in)/from financing activities	808.0	**(409.8)**	NM

	As at 31 Dec 2012 US$ mln	As at 31 Dec 2013 US$ mln	Change %
Total assets	2,949.8	**2,856.6**	-3%
Total debt	1,075.1	**1,014.1**	-6%
Cash and cash equivalents	178.2	**104.1**	-42%

Non-GAAP financial information	2012 US$ mln	2013 US$ mln	Change %
Adjusted Revenue	1,322.0*	**1,407.3***	6%
Including:			
Net Revenue from Operation of Rolling Stock	1,159.0*	**1,217.8***	5%
Operating lease of rolling stock	135.8	**118.5**	-13%
Net Revenue from Engaged Fleet	18.0*	**58.6***	225%
Total Operating Cash Costs	662.8*	**742.9***	12%
Including:			
Empty Run Costs	253.9*	**309.8***	22%
Repair and maintenance	104.1	**130.5**	25%
Employee benefit expense	82.1	**96.1**	17%
Operating lease rentals – rolling stock	61.6	**40.1**	-35%
Adjusted EBITDA	658.2*	**652.7***	-1%
Adjusted EBITDA Margin (%)	50%*	**46%***	–
Free Cash Flow	(259.0)*	**423.2***	NM

	As at 31 Dec 2012 US$ mln	As at 31 Dec 2013 US$ mln	Change %
Net Debt	896.9*	**910.0***	1%
Net Debt to Adjusted EBITDA (x)	1.4*	**1.4***	–

1. The Group's financial performance in 2013 was affected by a 3% depreciation in the average exchange rate of the Russian Rouble (Functional Currency of the Company, its Cyprus and Russian subsidiaries) against the US Dollar compared to 2012 (the Group's financial information presentation currency). The 2013 period end exchange rate of the Russian Rouble against the US Dollar weakened by 8% compared to the end of 2012.
2. Weighted average number of ordinary shares in issue (thousand) increased from 165,580 in 2012 to 178,741 in 2013.

Operational information	2012	2013	Change %
Freight Rail Turnover (including Engaged Fleet), billion tonnes-km	137.8	**155.5**	13%
Transportation Volume (including Engaged Fleet), million tonnes	83.9	**102.4**	22%
Freight Rail Turnover (excluding Engaged Fleet), billion tonnes-km	116.7	**131.0**	12%
Transportation Volume (excluding Engaged Fleet), million tonnes	74.3	**86.0**	16%
Market Share	6.6%	**8.3%**	–
Average Price per Trip, US$	992	**907**	-9%
Average Price per Trip, RUB	30,813	**28,947**	-6%
Average Distance of Loaded Trip, km	1,561	**1,521**	-3%
Average Rolling Stock Operated, units	46,825	**53,445**	14%
Average Number of Loaded Trips per Railcar	25.0	**25.1**	1%
Total Empty Run Ratio, %	57%	**53%**	–
Empty Run Ratio for gondola cars, %	38%	**38%**	–
Share of Empty Run Kilometres Paid by Globaltrans	81%	**89%**	–

	As at 31 Dec 2012	As at 31 Dec 2013	Change %
Total Fleet, units	61,935	**65,808**	6%
Including Owned Fleet, units	58,501	**61,124**	4%
Average age of Owned Fleet, years	7.0	**8.0**	–
Total number of employees	1,185	**1,620**	37%

Revenue

The Group's revenue rose 10% to US$2,327.5 million in 2013 compared to US$2,114.3 million the previous year. The increase in the Group's revenue primarily reflected a 6% year-on-year increase in the Group's Adjusted Revenue, which benefited from a further increase in the Group's average fleet size and a strong performance in the rail tank car segment, as well as other factors described below.

The following table provides details of revenue, broken down by revenue-generating activity, for the years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Railway transportation – operator services (tariff borne by the Group)[3]	1,208.5	**1,541.6**	333.1	28%
Railway transportation – operator services (tariff borne by the client)	760.9	**654.9**	(105.9)	-14%
Railway transportation – freight forwarding	6.9	**2.0**	(4.9)	-72%
Operating lease of rolling stock	135.8	**118.5**	(17.3)	-13%
Other	2.3	**10.5**	8.2	362%
Total revenue	**2,114.3**	**2,327.5**	**213.3**	**10%**

3. Includes "Infrastructure and locomotive tariffs: loaded trips" for year ended 31 December 2013 of US$764.0 million (2012: US$681.7 million) and "Services provided by other transportation organisations" of US$156.3 million (2012: US$110.6 million).

Adjusted Revenue

Adjusted Revenue is a non-GAAP financial measure defined as "Total revenue" adjusted for "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations". "Infrastructure and locomotive tariffs: loaded trips" comprises revenue resulting from tariffs that customers pay to the Group and the Group pays on to RZD, which are reflected in equal amounts in both the Group's revenue and cost of sales. "Services provided by other transportation organisations" is revenue resulting from the tariffs that customers pay to the Group and the Group pays on to third-party rail operators for subcontracting their rolling stock, which are reflected in equal amounts in both the Group's revenue and cost of sales. The net result of Engaged Fleet operations is reflected as Net Revenue from Engaged Fleet being a part of Adjusted Revenue.

The Group's Adjusted Revenue rose 6% year on year to US$1,407.3 million* in 2013.

The following table provides details of Adjusted Revenue for the years ended 31 December 2013 and 2012 and its reconciliation to revenue.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Revenue	2,114.3	**2,327.5**	213.3	10%
Minus "pass through" items				
Infrastructure and locomotive tariffs: loaded trips	681.7	**764.0**	82.3	12%
Services provided by other transportation organisations	110.6	**156.3**	45.6	41%
Adjusted Revenue	**1,322.0***	**1,407.3***	**85.3**	**6%**

The principal components of Adjusted Revenue include: (i) Net Revenue from Operation of Rolling Stock; (ii) Revenue from operating lease of rolling stock, (iii) Net Revenue from Engaged Fleet, and (iv) other revenues generated by the Group's non-core business activities, including repair and maintenance services provided to third parties and freight forwarding.

The following table provides a breakdown of Adjusted Revenue for the years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Net Revenue from Operation of Rolling Stock	1,159.0*	**1,217.8***	58.8	5%
Operating lease of rolling stock	135.8	**118.5**	(17.3)	-13%
Net Revenue from Engaged Fleet	18.0*	**58.6***	40.5	225%
Railway transportation-freight forwarding	6.9	**2.0**	(4.9)	-72%
Other	2.3	**10.5**	8.2	362%
Adjusted Revenue	**1,322.0***	**1,407.3***	**85.3**	**6%**

Net Revenue from Operation of Rolling Stock

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 "Total revenue – operator's services[1]" less "Infrastructure and locomotive tariffs: loaded trips", "Services provided by other transportation organisations" and Net Revenue from Engaged Fleet.

Net Revenue from Operation of Rolling Stock accounted for 87% of the Group's Adjusted Revenue in 2013.

The following table provides Net Revenue from Operation of Rolling Stock for the years ended 31 December 2013 and 2012, and its reconciliation to revenue from operator's services.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Total revenue – operator's services[1]	1,969.3	**2,196.6**	227.2	12%
Minus				
Infrastructure and locomotive tariffs: loaded trips	681.7	**764.0**	82.3	12%
Services provided by other transportation organisations	110.6	**156.3**	45.6	41%
Net Revenue from Engaged Fleet	18.0*	**58.6***	40.5	225%
Net Revenue from Operation of Rolling Stock	**1,159.0***	**1,217.8***	**58.8**	**5%**

1. Defined as the sum of the following EU IFRS line items: "Railway transportation – operator's services (tariff borne by the Group)" and "Railway transportation – operator's services (tariff borne by the client)".

The Group's Net Revenue from Operation of Rolling Stock rose 5% to US$1,217.8 million* in 2013 compared to the previous year. In Russian Rouble terms, the Group's Net Revenue from Operation of Rolling Stock increased 8% year on year.

The key factors that contributed to the increase in the Group's Net Revenue from Operation of Rolling Stock included:

- Average Rolling Stock Operated increased 14% year on year to 53,445 units in 2013 reflecting the integration of recently acquired businesses;

- Average Price per Trip declined 6% year on year in Russian Rouble terms (-9% in US Dollar terms) reflecting (i) a 3% year-on-year decrease in Average Distance of Loaded Trip; (ii) strong performance in the rail tank car segment; and (iii) sluggish pricing in the gondola car segment.

Revenue from operating lease of rolling stock
Revenue from operating lease of rolling stock, which accounted for 8% of the Group's Adjusted Revenue in 2013, was US$118.5 million in 2013, a decrease of 13% compared to the previous year reflecting primarily a decline in the leasing rates.

Net Revenue from Engaged Fleet
Net Revenue from Engaged Fleet increased to US$58.6 million* in 2013 compared to US$18.0 million* in the previous year, as the Group increased its usage of rolling stock subcontracted from third-party rail operators (Engaged Fleet) to meet demand under the long-term service contracts of Ferrotrans and Steeltrans not covered by the Group's Owned or Leased-in Fleets.

In 2013 the Freight Rail Turnover generated by the Engaged Fleet was 24.5 billion tonnes-km or 16% of the Group's Freight Rail Turnover for this period.

Net Revenue from the Engaged Fleet represents the net sum of the price charged to clients for transportation by the Group utilising Engaged Fleet less the loaded railway tariff charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips") and less the cost of engaging fleet from third-party rail operators (included in the EU IFRS line item "Services provided by other transportation organisations").

Cost of sales, selling and marketing costs and administrative expenses

In 2013 the Group's total cost of sales, selling and marketing costs and administrative expenses was US$1,877.0 million, an increase of 19% compared to the previous year, primarily reflecting the increase in business volumes resulting from the consolidation of acquisitions, as well as the factors described below.

- "Pass through" cost items (Infrastructure and locomotive tariffs: loaded trips and Services provided by other transportation organisations) increased 16% year on year to US$920.2 million*;

- Total Operating Cash Costs increased 12% year on year to US$742.9 million* in line with the increase in business volumes (the Group's Average Rolling Stock Operated was up 14% year on year);

- Total Operating Non-Cash Costs increased 73% year on year to US$213.8 million*, as depreciation of property, plant and equipment and amortisation of intangible assets increased reflecting the consolidation of recent acquisitions and associated long-term service contracts.

The following table provides a breakdown of cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Cost of sales	1,450.2	**1,727.9**	277.7	19%
Selling, marketing and administrative expenses	128.7	**149.1**	20.3	16%
Total cost of sales, selling and marketing costs and administrative expenses	**1,579.0**	**1,877.0**	**298.0**	**19%**

In order to show 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:

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
"Pass through" cost items	**792.3**	**920.2**	**127.9**	**16%**
Infrastructure and locomotive tariffs: loaded trips	681.7	**764.0**	82.3	12%
Services provided by other transportation organisations	110.6	**156.3**	45.6	41%
Total Operating Cash Costs	**662.8***	**742.9***	**80.1**	**12%**
Empty Run Costs	253.9*	**309.8***	55.9	22%
Repairs and maintenance	104.1	**130.5**	26.5	25%
Employee benefit expense	82.1	**96.1**	14.0	17%
Operating lease rentals – rolling stock	61.6	**40.1**	(21.5)	-35%
Infrastructure and Locomotive Tariffs – Other Tariffs	42.0*	**29.6***	(12.4)	-30%
Fuel and spare parts – locomotives	31.5	**38.0**	6.5	21%
Engagement of locomotive crews	12.2	**14.1**	1.9	16%
Legal, consulting and other professional fees	7.0	**5.1**	(1.9)	-27%
Other Operating Cash Costs	68.5*	**79.6***	11.0	16%
Total Operating Non-Cash Costs	**123.8***	**213.8***	**90.0**	**73%**
Depreciation of property, plant and equipment	113.0	**164.4**	51.3	45%
Amortisation of intangible assets	7.7	**31.9**	24.2	313%
Impairment charge for receivables	0.9	**11.7**	10.7	1131%
Loss on sale of property, plant and equipment	2.1	**5.9**	3.7	176%
Total cost of sales, selling and marketing costs and administrative expenses	**1,579.0**	**1,877.0**	**298.0**	**19%**

"Pass through" cost items

Infrastructure and locomotive tariffs: loaded trips
Infrastructure and locomotive tariffs: loaded trips is in principle a "pass through" item for the Group[1] and is reflected in equal amounts in both the Group's revenue and cost of sales. Infrastructure and locomotive tariffs: loaded trips increased 12% to US$764.0 million in 2013 compared to the previous year predominantly reflecting the increase in the Group's business volumes resulting largely from the consolidation of the recent acquisitions.

Services provided by other transportation organisations
Services provided by other transportation organisations is in principle a "pass through" item for the Group and is reflected in equal amounts in both the Group's revenue and cost of sales. This cost item includes tariffs that the Group pays on to third-party rail operators for subcontracting their rolling stock (Engaged Fleet), which are reflected equally in both the Group's revenue and cost of sales. In 2013, services provided by other transportation organisations increased to US$156.3 million from US$110.6 million in the previous year reflecting the consolidation of the recent acquisitions.

Total Operating Cash Costs

The Group's Total Operating Cash Costs rose 12% year on year to US$742.9 million* in 2013 in line with the increase in the Group's business volumes (the Group's Average Rolling Stock Operated was up 14% year on year). This increase reflected the combination of factors described below.

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 the "pass through" cost items and non-cash cost items.

1. Under contracts where the RZD tariff is borne by the Group, the Group has a contractual relationship with the client. The Group sets the terms of the transactions, such as selling and payment terms, and in some cases bears credit risk and controls the flow of receipts and payments.

The following table provides a breakdown of the Total Operating Cash Costs for the years ended 31 December 2013 and 2012.

	2013 % of total	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Empty Run Costs	**42%**	253.9*	**309.8***	55.9	22%
Repairs and maintenance	**18%**	104.1	**130.5**	26.5	25%
Employee benefit expense	**13%**	82.1	**96.1**	14.0	17%
Operating lease rentals – rolling stock	**5%**	61.6	**40.1**	(21.5)	-35%
Infrastructure and Locomotive Tariffs – Other Tariffs	**4%**	42.0*	**29.6***	(12.4)	-30%
Fuel and spare parts – locomotives	**5%**	31.5	**38.0**	6.5	21%
Engagement of locomotive crews	**2%**	12.2	**14.1**	1.9	16%
Legal, consulting and other professional fees	**1%**	7.0	**5.1**	(1.9)	-27%
Other Operating Cash Costs	**11%**	68.5*	**79.6***	11.0	16%
Total Operating Cash Costs	**100%**	**662.8***	**742.9***	**80.1**	**12%**

Empty Run Costs
Empty Run Costs (a non-GAAP financial measure) accounted for 42% of the Group's Total Operating Cash Costs in 2013. Empty Run Costs increased 22% to US$309.8 million* in 2013 compared to the previous year reflecting a combination of the following factors:

- An increase in the Group's business volumes primarily due to consolidation of Ferrotrans and Steeltrans (Average Rolling Stock Operated increased 14% year on year);
- A 7% increase[2] (in Russian Rouble terms) in the RZD regulated tariff for the traction of empty railcars;
- An increase in the Share of Empty Run Kilometres paid by Globaltrans to 89% (2012: 81%) driven by the consolidation of Ferrotrans and Steeltrans (as these companies historically paid 100% Empty Run kilometres) as well as an increase in the share of Empty Run Kilometres paid by Globaltrans in the segment for rail transportation of oil products and oil);
- Total Empty Run Ratio improved to 53% in 2013 compared to 57% in 2012, driven primarily by higher share of gondola cars in Average Rolling Stock Operated in the reporting year. Empty Run Ratio for gondola cars remained unchanged year on year at a solid 38% in 2013.

Repairs and maintenance
Repairs and maintenance, which accounted for 18% of the Group's Total Operating Cash Costs in 2013, increased 25% to US$130.5 million compared to the previous year, primarily driven by (i) increased fleet size reflecting the recent acquisitions; (ii) a greater number of scheduled repairs made for locomotives in the reporting year; as well as (iii) cost inflation for certain repair works and spare parts.

Employee benefit expense
Employee benefit expense, accounting for 13% of the Group's Total Operating Cash Costs, increased 17% to US$96.1 million in 2013 compared to the previous year. The Group managed to keep the increase in employee benefit expense costs significantly below the growth in headcount (driven by the consolidation of the acquired businesses, including the repair depot) with the average number of employees during the year up 36%. The Group's total number of employees decreased 7% from mid-2013 to the end of February 2014.

Operating lease rentals – rolling stock
Operating lease rentals – rolling stock, which accounted for 5% of the Group's Total Operating Cash Costs in 2013, decreased 35% to US$40.1 million compared to the previous year. This decline reflected (i) a decrease in the average number of Leased-in Fleet; and (ii) a reduction in the leasing rates in the reporting year.

Infrastructure and Locomotive Tariffs – Other Tariffs
Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure), which is presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of cost of sales reported under EU IFRS, accounted for 4% of the Group's Total Operating Cash Costs in 2013. Infrastructure and Locomotive Tariffs – Other Tariffs was US$29.6 million* in 2013, decreasing 30% compared to the previous year. This cost item includes the costs of relocation of rolling stock to and from maintenance, transition of purchased rolling stock to its first place of commercial utilisation, and relocation of rolling stock in and from lease operations as well as other expenses.

2. According to the Federal Tariff Service of Russia; from 1 January 2013.

Fuel and spare parts – locomotives

Fuel and spare parts – locomotives expenses, accounting for 5% of the Group's Total Operating Cash Costs, were US$38.0 million in 2013, an increase of 21% compared to the previous year. This increase reflected primarily the increase in the average number of locomotives operated as well as the increased utilisation of block trains[1] with owned locomotives.

Engagement of locomotive crews

Costs related to the engagement of locomotive crews from RZD increased 16% to US$14.1 million in 2013 compared to the previous year and was primarily due to an increase in the average number of locomotives operated as well as increased utilisation of block trains[1] with owned locomotives. This cost item accounted for 2% of the Group's Total Operating Cash Costs in 2013.

Other Operating Cash Costs

Other Operating Cash Costs, which accounted for 11% of the Group's Total Operating Cash Costs, increased 16% to US$79.6 million* in 2013 compared to the previous year, reflecting (i) an increase in Taxes (other than income tax and value added taxes) which was predominantly property tax reflecting the increase in the number of the Group's Owned Fleet; and (ii) an increase in Operating lease rentals – office, Communication costs and other administrative expenses, a part of Other expenses, largely driven by the consolidation of Ferrotrans and Steeltrans.

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".

Total Operating Non-Cash Costs

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" and "Loss on sale of property, plant and equipment".

The following table provides a breakdown of the Total Operating Non-Cash Costs for the years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Depreciation of property, plant and equipment	113.0	**164.4**	51.3	45%
Amortisation of intangible assets	7.7	**31.9**	24.2	313%
Impairment charge for receivables	0.9	**11.7**	10.7	1131%
Loss on sale of property, plant and equipment	2.1	**5.9**	3.7	176%
Total Operating Non-Cash Costs	**123.8**	**213.8**	**90.0**	**73%**

Total Operating Non-Cash Costs were US$213.8 million* in 2013, an increase of 73% compared to the previous year, reflecting the combination of the following factors:

- Depreciation of property plant and equipment increased 45% year on year to US$164.4 million in 2013, due to the increase in the book value of the Group's property, plant and equipment reflecting primarily the consolidation of the recent acquisitions and the purchase of new railcars during 2012 (the book value of the Group's property, plant and equipment was up 92% to US$2.7 billion as at 1 January 2013 compared to the beginning of 2012);

1. 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.

- An increase in amortisation of intangible assets to US$31.9 million in 2013 from US$7.7 million for 2012. This increase was driven by the amortisation of customer relationships related to the service contracts with Metalloinvest and MMK which were acquired as part of the acquisitions of Ferrotrans and Steeltrans. The customer relationships with Metalloinvest and MMK are being amortised for five years and seven years respectively;

- In 2013 the Group recorded US$11.7 million of impairment charge for receivables which primarily reflected the one-off provisions made in respect of terminated client relationships, predominantly in the leasing business.

Adjusted EBITDA (non-GAAP financial measure)

The Group's Adjusted EBITDA in 2013 was US$652.7 million*, a decline of 1% compared to the previous year. In Russian Rouble terms, the Group's Adjusted EBITDA increased 2% year on year. The Group's Adjusted EBITDA Margin was 46%* in 2013 compared to 50%* in the previous year reflecting primarily soft market conditions in the segment for transportation in gondola cars.

The difference between EBITDA and Adjusted EBITDA arises largely from "Net foreign exchange transaction gains (losses) on borrowings and other liabilities" and "Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets", which are eliminated from Adjusted EBITDA.

The following table provides detail on Adjusted EBITDA for the years ended 31 December 2013 and 2012, and its reconciliation to EBITDA and profit for the year.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Profit for the year	311.6	**251.6**	(59.9)	-19%
Plus (minus)				
Income tax expense	100.7	**90.5**	(10.2)	-10%
Finance costs – net	124.5	**109.8**	(14.8)	-12%
Net foreign exchange transaction gains/(losses) on borrowings and other liabilities	(26.6)	**2.2**	NM	NM
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	(5.6)	**6.7**	NM	NM
Amortisation of intangible assets	7.7	**31.9**	24.2	313%
Depreciation of property, plant and equipment	113.0	**164.4**	51.3	45%
EBITDA	**625.4***	**657.2***	**31.8**	**5%**
Minus (plus)				
Net foreign exchange transaction gains/(losses) on borrowings and other liabilities	(26.6)	**2.2**	NM	NM
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	(5.6)	**6.7**	NM	NM
Share of profit of associates	0.3	**0.2**	(0.1)	-37%
Other gains – net	1.2	**1.2**	(0.0)	1%
Loss on sale of property, plant and equipment	(2.1)	**(5.9)**	(3.7)	176%
Adjusted EBITDA	**658.2***	**652.7***	**(5.5)**	**-1%**

Finance income and costs

The following table provides a breakdown of finance income and costs for the years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln	Change US$ mln	Change %
Interest expense:				
Borrowings from third parties	–	**(2.2)**	NM	NM
Bank borrowings	(61.8)	**(75.9)**	14.2	23%
Non-convertible bond	(32.6)	**(36.2)**	3.7	11%
Finance leases	(2.9)	**(2.1)**	(0.8)	-28%
Other finance costs	(0.8)	**(5.9)**	5.1	625%
Total interest expense	**(98.0)**	**(122.2)**	**24.3**	**25%**
Net foreign exchange transaction gains/(losses) on borrowings and other liabilities	(26.6)	**2.2**	NM	NM
Finance costs	**(124.5)**	**(120.1)**	**(4.5)**	**-4%**
Interest income:				
Loans receivables from third parties	–	**0.0**[1]	NM	NM
Bank balances	2.3	**0.9**	(1.4)	-60%
Short-term deposits	3.3	**2.6**	(0.7)	-22%
Total interest income	**5.6**	**3.6**	**(2.1)**	**-37%**
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets	(5.6)	**6.7**	NM	NM
Finance income	**–**	**10.3**	**NM**	**NM**
Net finance costs	**(124.5)**	**(109.8)**	**(14.8)**	**-12%**

Finance income

Finance income increased to US$10.3 million in 2013 as a combination of total interest income of US$3.6 million and US$6.7 million of net foreign exchange transaction gains on cash and cash equivalents and other monetary assets.

Finance costs

Finance costs decreased 4% to US$120.1 million in 2013 compared to the previous year, reflecting a combination of the following factors:

- A 25% year-on-year increase in total interest expense to US$122.2 million in 2013, largely driven by the growth in borrowings incurred to finance recent acquisitions;
- US$2.2 million net foreign exchange transaction gains on borrowings and other liabilities recorded in 2013 compared to US$26.6 million of net foreign exchange transaction losses on borrowings and other liabilities as the Group increased share of indebtedness denominated in Russian Roubles (94% as of 31 December 2013).

1. US$0.03 million.

Profit before income tax

Profit before income tax decreased 17% to US$342.2 million in 2013 compared to the previous year. This decrease was driven by a decrease in operating profit of US$84.8 million year on year, largely due to the US$90.0 million increase in Total Operating Non-Cash Costs, which was primarily driven by the increase in depreciation of property, plant and equipment and amortisation of intangible assets reflecting the consolidation of recent acquisitions and associated long-term service contracts; which was partially offset by a US$14.8 million year-on-year decrease in Net finance cost.

Income tax expense
Income tax expense decreased 10% year on year to US$90.5 million in 2013 primarily reflecting a 17% year-on-year decrease in Group's Profit before income tax.

The effective tax rate was 26.5% in 2013 (2012: 24.4%). The increase in the effective tax rate is caused by the increased proportion of the Group's profits arising from the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate as well as the increase in withholding tax paid for Russian subsidiaries and corporation tax on profit distribution for Estonian subsidiaries. The 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 tax authorities at the same time when the payment of dividend is effected. In case the dividends are distributed by the Estonian subsidiaries the tax of 21% is applied to such distributions.

Liquidity and Capital Resources

The business of freight rail transportation is capital intensive. In 2013 the Group's liquidity needs arose primarily from the acquisition of Steeltrans (renamed from MMK-Trans). The Group was able to meet its liquidity and capital expenditure needs comfortably from operating cash flow, cash and cash equivalents available at 31 December 2012 as well as proceeds from borrowings.

The Group manages its liquidity based on expected cash flows. As at 31 December 2013, the Group had Net Working Capital of US$102.5 million*. Utilising its anticipated operating cash flow and borrowings, the Group believes that it has sufficient working capital to enable it to operate successfully and expand its business when appropriate opportunities arise.

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for years ended 31 December 2013 and 2012.

	2012 US$ mln	2013 US$ mln
Cash flows from operating activities	**659.4**	**653.9**
Changes in working capital		
Inventories	(4.2)	**(1.8)**
Trade and other receivables	(24.7)	**83.8**
Trade and other payables	19.4	**(78.2)**
Cash generated from operations	649.9	**657.7**
Tax paid	(81.8)	**(83.2)**
Net cash from operating activities	**568.1**	**574.5**
Cash flows from investing activities		
Acquisition of subsidiaries – net of cash acquired	(572.9)	**(203.0)**
Purchases of property, plant and equipment	(736.9)	**(40.0)**
Proceeds from disposal of property, plant and equipment	0.9	**5.4**
Advance payment for acquisition of subsidiary-restricted cash	(10.0)	**–**
Interest received	5.7	**3.5**
Loan repayments received from third parties	–	**0.0**[1]
Net cash used in investing activities	**(1,313.2)**	**(233.9)**
Cash flows from financing activities		
Net cash inflows (outflows) from borrowings and financial leases[2]	684.1*	**(119.9)***
Interest paid	(90.2)	**(111.4)**
Proceeds from the issue of shares – net of expenses	330.3	**–**
Proceeds from the sale of treasury shares	60.0	**–**
Purchase of treasury shares	(43.2)	**–**
Dividends paid to non-controlling interests	(34.2)	**(53.4)**
Dividends paid to Company's shareholders	(98.9)	**(125.1)**
Net cash from/(used in) financing activities	**808.0**	**(409.8)**
Net (decrease)/increase in cash and cash equivalents	62.8	**(69.2)**
Exchange losses on cash and cash equivalents	(4.4)	**(4.9)**
Cash, cash equivalents and bank overdrafts at beginning of year	119.7	**178.2**
Cash and cash equivalents and bank overdrafts at end of year	**178.2**	**104.1**

Net cash from operating activities

Net cash generated from operating activities increased 1% to US$574.5 million in 2013 compared to the previous year supported by the solid performance of the underlying business.

Net cash used in investing activities

Net cash used in investing activities declined to US$233.9 million in 2013 from US$1,313.2 million in 2012, reflecting the Group's lower investment activity in the reporting year, primarily including (i) US$203.0 million of acquisition of subsidiaries – net of cash acquired; and (ii) US$40.0 million of Purchases of property, plant and equipment, representing primarily maintenance CAPEX.

Net cash (used in)/from financing activities

Net cash used in financing activities was US$409.8 million in 2013, compared to Net cash from financing activities of US$808.0 million in the previous year, which primarily reflected the combination of the following factors:

- Net cash outflows from borrowings and finance leases of US$119.9 million* in 2013 compared to US$684.1 million* inflow in the previous year reflecting the Group's lower investing activity in the reporting year as well as continued focus on business deleverage;

1. US$0.08 million.
2. Net cash inflows (outflows) from borrowings and financial leases defined as a balance between the following line items: "Proceeds from borrowings", "Repayments of borrowings" and "Finance lease principal payments".

- An increase of US$21.2 million in Interest paid to US$111.4 million in 2013 compared to the previous year, as the Group's indebtedness increased in the first half of the reporting year, primarily to finance the acquisition of Steeltrans in February 2013;
- Payment of US$125.1 million in dividends to owners of the Company, compared to US$98.9 million paid in the previous year;
- Payment of US$53.4 million in dividends to non-controlling interests in subsidiaries, compared to US$34.2 million paid in the previous year.

Capital Expenditure

The Group's capital expenditure for the acquisition of rolling stock on an accrual basis was US$35.5 million in 2013 compared to US$809.7 million in the previous year. In 2013, the Group's capital expenditure represented primarily maintenance CAPEX.

Acquisition of Steeltrans: on 12 February 2013 the Group completed the acquisition of 100% interest in Steeltrans (renamed from MMK-Trans), the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. The total consideration was US$251.3 million. Steeltrans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. As part of the transaction, Globaltrans entered into a five-year contract guaranteed by MMK Group to supply MMK with rail transportation services for at least 70% of its rail cargo flows (the service volume under this contract has been increased to 80% for the duration of 2014 as agreed in March 2014).

Capital Resources

As of 31 December 2013, the Group's financial indebtedness consisted of bank borrowings, non-convertible unsecured bonds, finance lease liabilities and loans from third parties for an aggregate principal amount of US$1,014.1 million (including accrued interest of US$14.9 million*), representing a decrease of US$61.0 million compared to the end of 2012.

In the first half of 2013 the Group increased its leverage to finance the acquisition of Steeltrans with Net Debt up to US$1,095.2 million* as at 30 June 2013, but in the second half of the year the Group actively deleveraged the business with the Group's Net Debt down to US$910.0 million* as of the end of 2013. As of the end of February 2014, the Net Debt of the Group further decreased to US$748.6 million* due to deleveraging and foreign exchange movements.

The following table provides detail on the Group's financial indebtedness structure as of 31 December 2013 (including accrued interest of US$14.9 million*).

	As at 31 Dec 2013 US$ mln	% of total
Bank borrowings	**596.0**	**59%**
Non-convertible unsecured bonds	**352.1**	**35%**
Finance lease liabilities	**45.2**	**4%**
Loans from third parties	**20.8**	**2%**
Total	**1,014.1**	**100%**

As of the end of 2013 the Group's leverage remained at the comfortable level with a Net Debt to Adjusted EBITDA ratio of 1.4x*.

The currency structure of the Group's indebtedness was further improved with Russian Rouble-denominated borrowings accounting for 94% of the Group's debt portfolio as of 31 December 2013, compared to 91% as of the end of 2012.

The carrying amounts were denominated in the following currencies as of 31 December 2013 and 31 December 2012.

	As at 31 Dec 2012 US$ mln	% of total	As at 31 Dec 2013 US$ mln	% of total
Russian Rouble	975.1	91%	**954.4**	**94%**
US Dollar	98.0	9%	**59.6**	**6%**
Euro	2.0	0%	**0.0**[3]	**0%**

The weighted average effective interest rate was stable year on year at 9.1%* at the end of 2013 despite the increase in the share of the Russian Rouble-denominated borrowings.

In addition, the Group continued executing its strategy to reduce financial risk with the share of borrowings with a fixed interest rates increased to 87%* at 31 December 2013 compared to 75%* at the end of the previous year.

3. US$0.03 million.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of US$14.9 million*) as of 31 December 2013.

	As at 31 Dec 2013 US$ mln
2014	277.0*
2015	510.9*
2016-2019	226.3*
Total	**1,014.1***

Related Party Transactions

For the purposes of the 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.

Until July 2012, the Group was controlled by Transportation Investments Holding Limited ("TIHL") incorporated in Cyprus, which owned 50.1% of the Company's shares. Envesta Investments Limited ("EIL") owned 12.3% (including the holding of GDRs of the Company) of the Company's shares until July 2012.

In March 2013, TIHL transferred the shares it held in the Company to Maple Valley Investments, Marigold Investments and Onyx Investments in equal proportions and since March 2013 is no longer a related party to the Company[1].

Following the above events, shares held by its major shareholders, Maple Valley Investments, Marigold Investments and Onyx Investments as at 31 December 2013 were 11.5% each. EIL together with their affiliated entities held 10.8% as at 31 December 2013[2]. 54.5% of the shares represent the free market float and are held by external investors through GDRs. The remaining 0.2% of the shares of the Company are controlled by Directors and management of the Group.

For detailed information on the related party transactions, please refer to Note 30 of the consolidated financial statements (Appendix 1 "Directors' report and consolidated financial statements for the year ended 31 December 2013" 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 2013 and 2012.

	2012 US$ mln	2013 US$ mln
Sales of services	163.7	**29.1**
Purchases of services	29.8	**9.8**
Additions and disposals of property, plant and equipment	1.5	**0.1**
Key management salaries and other short term employee benefits[3]	26.0	**25.5**

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

	2012 US$ mln	2013 US$ mln
Trade and other receivables	16.5	**0.2**
Prepayments	2.8	**1.2**
Trade payables	0.5	**0.3**
Advances	1.2	**0.0**[4]

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

	2012 US$ mln	2013 US$ mln
Group as lessor	0.0[5]	–
Group as lessee	9.4	**3.9**

1. Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, Russia's leading container port operator which is also listed on the London Stock Exchange.
2. In January 2014 the Group was notified that the internal reorganisation of EIL has been completed. As a result of this reorganisation the two beneficial owners of EIL now beneficially own their stakes in Globaltrans directly through separate entities controlled by each of them: Goldriver Resources beneficially owns a 4.5% stake in Globaltrans, Litten Investments beneficially owns a 6.3% stake in Globaltrans.
3. Key management salaries and other short-term employee benefits' include 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$3.6 million (2012: US$7.9 million).
4. US$0.007 million.
5. US$0.026 million.

RISK MANAGEMENT

Principal risks and uncertainties

Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment

The Board of Directors has adopted a formal process to identify, evaluate and manage principal risks and uncertainties 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 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.

STRATEGIC: THE RISKS THAT INFLUENCE THE GROUP'S ABILITY TO ACHIEVE ITS STRATEGY

OPERATING ENVIRONMENT

Description of Risks

The Group and its subsidiaries operate mainly in the Russian Federation, certain other emerging markets, and Estonia. 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. Moreover, the Group's business depends on the demand in the Russian freight rail transportation market, which in turn depends on certain key commodities sectors and, accordingly, on economic growth in Russia, European countries and elsewhere.
A decrease in demand for key commodities in Russia, or in adjacent countries where the commodities of the Group's key customers are shipped by rail, as a result of an economic downturn, political crisis or otherwise in Russia or such countries, could negatively impact the Group's business and its growth prospects.

The political turmoil recently experienced within Ukraine and between Ukraine and Russia may have a negative impact on the Russian economy, result in a further weakening of the Russian Rouble, increase the cost of borrowing and make it harder to raise international funding. The ongoing threat of further sanctions by the United States, the European Union and other countries and the continuation or escalation of turmoil in the region could affect our ability to conduct our business, increase the negative impact on the Russian economy and have a negative impact on the demand for key commodities in Russia. In addition, the political instability in Ukraine could have a negative impact on our business and assets in Ukraine.

Management assessed possible impairment of the Group's goodwill by considering the current economic environment and outlook. The future economic and regulatory situation may differ from management's current expectations. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Controls and Mitigating Factors

Mitigation methodology involves understanding the political and economic uncertainties of the operating environment and the risks faced by all our business operations. The Group's compliance and legal teams constantly monitor changes in

RISK MANAGEMENT

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

STRATEGIC RISKS

- **Operating environment**
- **Relations with Government authorities and state-owned enterprises**
- **Growth strategies**
- **Competition and customer concentration**
- **Locomotive traction**

COMPLIANCE RISKS

- **Pending and potential legal actions**
- **Fiscal risks**

OPERATIONAL RISKS

- **Infrastructure**
- **Employees**
- **Customer satisfaction**
- **IT availability / continuity**

FINANCIAL RISKS

- **Currency risks**
- **Interest rates**
- **Credit risks**
- **Liquidity risk**

legislation and report them to the Group's management and Board of Directors. The Group has built an effective risk management system that includes risk controls and mitigation on all levels. Risk managers have direct access to the key management of the Group.

Globaltrans' business model seeks to balance growth and resilience to market downturns. A well-balanced fleet is one of the cornerstones of the Group's business model. The Group intends to continue to maintain a balance between universal gondola cars, adaptable to the demand for the transportation of particular bulk cargoes, and rail tank cars, which are used for the rail transportation of oil products and oil, a sector in which the demand historically has been relatively stable. In addition, the Group has entered into long-term service contracts with two large Russian industrial groups.

RELATIONS WITH GOVERNMENT AUTHORITIES AND STATE-OWNED ENTERPRISES

Description of Risks

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 Group is subject to regulatory risks relating to the operation of the Russian railway transportation market and the reform of the railway industry. Any unexpected changes to the regulatory environment of the Russian railway transportation market could negatively impact the Group. In addition, the Group is dependent on the services (including maintenance and repairs), infrastructure 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 or that RZD will not increase its charges for such service provision and infrastructure use.

Controls and Mitigating Factors

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 (including two in-house repair facilities) to ensure less dependence on RZD-owned providers of depots providing railcar repair services, higher quality, and to minimise costs. 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 (cargo or client-specific Group-operated block trains all bound for the same direction) 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 seeks to minimise its exposure to 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 where possible.

GROWTH STRATEGIES

Description of Risks

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. In addition to pursuing organic growth strategies, the Group has recently 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.

Controls and Mitigating Factors

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. Any valuation of an acquisition target is 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 a transaction is considered.

By assembling full trains composed only of its own railcars, the Group increases the speed, and decreases the cost of, transportation for its clients

COMPETITION AND CUSTOMER CONCENTRATION

Description of Risks

The Russian rail transportation market is becoming increasingly competitive as a result of further deregulation, privatisation and increasing railcar supply, while demand has been stagnating. After the privatisation of JSC Freight One and establishment of JSC Federal Freight (renamed from JSC Freight Two; owned by RZD), 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.

The Group's customer base is characterised by significant concentration and is heavily dependent on a few large industrial groups and their suppliers, with its top ten customers and their suppliers accounting for approximately 77% of the Group's Net Revenue from Operation of Rolling Stock in 2013.

Controls and Mitigating Factors

While JSC Freight One and JSC Federal Freight 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; (iv) sophisticated operating capabilities; and (v) modern fleet. Recently, as part of the acquisition of Metalloinvesttrans (renamed to Ferrotrans) and MMK-Trans (renamed to Steeltrans), the Group has concluded two long-term service contracts with its key customers, Metalloinvest and MMK to service their freight rail transportation requirements. Such contracts provide additional stability and greater certainty as to transport volumes for the Group. In addition, the Group's marketing function regularly monitors competitors' strategies, their use of technology, their price strategies and industry trends. 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

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. If those routes are not in demand by the Group's clients there is a risk that those locomotives will have lower utilisation. Furthermore, there is uncertainty as to the prospects for, and the timing of, further deregulation of locomotive traction. 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. There is uncertainty as to the prospects for, and the timing of, further deregulation of locomotive traction.

Controls and Mitigating Factors

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. The Group has established controls to obtain 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.

OPERATIONAL:
THE RISKS THAT INFLUENCE THE GROUP'S OPERATIONAL EFFICIENCY

INFRASTRUCTURE

Description of Risks

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.

RZD loaded tariffs for the use of the railway network and for the provision of locomotive services are regulated by the Federal Tariff Service and are in principal "pass through" for the Group and other private freight rail operators. Meanwhile, RZD tariffs for traction

of empty railcars are in most cases a direct cost of the Group and other private freight rail operators. 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.

Controls and Mitigating Factors
Practically all the Group's rolling stock is insured for damage to the rolling stock. Moreover, RZD, as a freight carrier on the railway network, bears full responsibility for third-party losses caused by accidents on the network. 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
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.

Controls and mitigating factors
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.

CUSTOMER SATISFACTION

Description of Risks
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 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

The Group uses specialised rail transport and logistics software in order to ensure the efficiency and effectiveness of the Group's logistics, dispatching and rolling stock tracking services

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.

Controls and Mitigating Factors
The Group has a strong reputation for delivering good 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. 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.

IT AVAILABILITY/CONTINUITY

Description of Risks
The Group uses specialised rail transport and logistics software in order to ensure the efficiency and effectiveness of the Group's logistics, dispatching and rolling stock tracking services. These systems are either licensed to the Group and then customised to the Group's needs or delivered to the Group and maintained for its needs by third parties under service agreements. The Group may potentially meet risks related to access privileges, audit trails, authentication, authorisation, backup procedures, business continuation, change management (software and hardware), data integrity, disaster recovery, infrastructure, information security and security of data.

Controls and Mitigating Factors
Local IT specialists introduced certain IT solutions to maintain IT services availability and insure their recovery in case of disruption. IT function and Internal Audit function monitor all IT-related activities performance for compliance with IT policies and procedures.

COMPLIANCE:
THE RISKS THAT INFLUENCE THE COMPANY'S ADHERENCE TO RELEVANT LAWS AND REGULATIONS

PENDING AND POTENTIAL LEGAL ACTIONS

Description of Risks
The Group is being involved in material legal actions from time to time. Some of them may have adverse effect on the Group. Besides, ambiguity of Russian and CIS countries law creates regulatory uncertainty and potentially can result in claims from different government authorities.

Controls and Mitigating Factors
The Group runs its operations in compliance with tax, currency, labour, customs and other applicable legislation and constantly monitors changes in regulatory environment.

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 Group functions concerned and a formal approval process prior to execution.

FISCAL RISK

Description of Risks
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.

Controls and Mitigating Factors
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
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

All contracts are subject to a rigorous review by all the Group functions concerned and a formal approval process prior to execution

The Group has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history

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.

Controls and Mitigating Factors

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. 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 2013, the Group had about 94% of its total debt denominated in Russian Roubles.

INTEREST RATE RISKS

Description of Risks

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.

Controls and Mitigating Factors

The Group concludes lease and long-term borrowing contracts to finance the purchase of rolling stock and acquisition of subsidiaries. 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 2013, the portion of total debt with a fixed interest rate amounted to 87%*. Management also considers alternative means of financing.

CREDIT RISKS

Description of Risks

Financial assets that potentially subject the Group to credit risk consist principally of trade receivables, restricted cash and cash equivalents. Furthermore, the Group's business is substantially dependent on a few large key customers, including its affiliates and suppliers. Top ten clients accounted for over 63%* of the Group's trade and other receivables on 31 December 2013.

Controls and Mitigating Factors

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'.

LIQUIDITY RISK

Description of Risks

The business of Group is capital intensive. The Group may potentially meet the insufficiency of cash and inability to obtain financing for settlement of liabilities when they fall due.

Controls and Mitigating Factors

The Group has budgeting policy in place which allows the Group's management to control current liquidity based on expected cash flows which include, among others, operating cash flows, capital expenditure needs, funds borrowed from financial institutions and funds raised from listed debt instruments.

Selected operational information

Rolling stock fleet	As at 31 December 2012	2013	Change	% change
Owned Fleet				
Gondola cars	38,534	40,095	1,561	4%
Rail tank cars	19,076	19,061	-15	0%
Hopper cars	712	707	-5	-1%
Locomotives	58	75	17	29%
Flat cars	121	1,186	1,065	880%
Total	**58,501**	**61,124**	**2,623**	**4%**
Owned Fleet as % of Total Fleet	94%	93%	–	–
Leased-in Fleet				
Gondola cars	345	533	188	54%
Rail tank cars	3,089	4,151	1,062	34%
Hopper cars	0	0	0	0%
Locomotives	0	0	0	0%
Flat cars	0	0	0	0%
Total	**3,434**	**4,684**	**1,250**	**36%**
Leased-in Fleet as % of Total Fleet	6%	7%	–	–
Total Fleet (Owned Fleet and Leased-in Fleet)	**61,935**	**65,808**	**3,873**	**6%**
Total Fleet by type of rolling stock, %				
Gondola cars	63%	62%	–	–
Rail tank cars	36%	35%	–	–
Hopper cars	1%	1%	–	–
Locomotives	0%	0%	–	–
Flat cars	0%	2%	–	–
Total	**100%**	**100%**	–	–
Lease-out Fleet				
Gondola cars	1,235	600	-635	-51%
Rail tank cars	7,509	8,887	1,378	18%
Hopper cars	463	601	138	30%
Locomotives	0	3	3	0%
Flat cars	20	292	272	1360%
Total	**9,227**	**10,383**	**1,156**	**13%**
Leased-out Fleet as % of Total Fleet	15%	16%	–	–
Average age of Owned Fleet				
Gondola cars	5.8	6.4	–	–
Rail tank cars	9.5	10.5	–	–
Hopper cars	6.5	7.4	–	–
Locomotives	7.1	11.8	–	–
Flat cars	3.8	25.2	–	–
Total	**7.0**	**8.0**	**–**	**–**

Operation of rolling stock (including Engaged Fleet)	2012	2013	Change	% change
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**75.7**	**87.6**	**11.8**	**16%**
Ferrous metals	30.0	32.2	2.2	7%
Scrap metal	2.1	3.7	1.7	81%
Iron ore	43.7	51.6	7.9	18%
Oil products and oil	**30.3**	**25.7**	**-4.6**	**-15%**
Coal (including coke)	**18.4**	**23.2**	**4.7**	**26%**
Construction materials	**7.9**	**11.2**	**3.3**	**42%**
Crushed stone	6.0	10.1	4.0	67%
Cement	0.3	0.3	0.1	21%
Other construction materials	1.6	0.8	-0.8	-49%
Other	**5.5**	**7.8**	**2.4**	**44%**
Total	**137.8**	**155.5**	**17.7**	**13%**

Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	55%	56%	–	–
Oil products and oil	22%	17%	–	–
Coal (including coke)	13%	15%	–	–
Construction materials (including cement)	6%	7%	–	–
Other	4%	5%	–	–
Total	**100%**	**100%**	**–**	**–**

Transportation Volume, million tonnes				
Metallurgical cargoes	**37.0**	**50.0**	**13.0**	**35%**
Ferrous metals	14.5	18.2	3.7	25%
Scrap metal	2.5	3.6	1.1	44%
Iron ore	20.0	28.2	8.2	41%
Oil products and oil	**25.1**	**23.9**	**-1.2**	**-5%**
Coal (including coke)	**10.0**	**10.8**	**0.8**	**8%**
Construction materials	**7.0**	**11.0**	**4.0**	**58%**
Crushed stone	5.5	9.7	4.2	77%
Cement	0.2	0.2	0.0	22%
Other construction materials	1.3	1.1	-0.2	-19%
Other	**4.8**	**6.7**	**1.9**	**40%**
Total	**83.9**	**102.4**	**18.5**	**22%**

Operation of rolling stock (excluding Engaged Fleet)

	2012	2013	Change	% change
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**55.7**	**65.9**	**10.2**	**18%**
Ferrous metals	26.4	25.5	-0.9	-3%
Scrap metal	2.1	2.1	0.0	0%
Iron ore	27.2	38.3	11.1	41%
Oil products and oil	**30.3**	**25.1**	**-5.3**	**-17%**
Coal (including coke)	**17.5**	**21.2**	**3.8**	**22%**
Construction materials	**7.9**	**11.0**	**3.2**	**40%**
Crushed stone	6.0	9.9	3.9	65%
Cement	0.3	0.3	0.1	20%
Other construction materials	1.6	0.8	-0.8	-50%
Other	**5.3**	**7.8**	**2.4**	**46%**
Total	**116.7**	**131.0**	**14.4**	**12%**
Transportation Volume, million tonnes				
Metallurgical cargoes	**28.0**	**35.7**	**7.7**	**27%**
Ferrous metals	12.2	13.4	1.3	10%
Scrap metal	2.5	2.3	-0.2	-8%
Iron ore	13.4	20.0	6.6	50%
Oil products and oil	**25.1**	**23.0**	**-2.1**	**-8%**
Coal (including coke)	**9.5**	**9.8**	**0.3**	**3%**
Construction materials	**6.9**	**10.8**	**3.8**	**55%**
Crushed stone	5.5	9.5	4.0	74%
Cement	0.2	0.2	0.0	23%
Other construction materials	1.3	1.0	-0.2	-19%
Other	**4.7**	**6.6**	**1.9**	**41%**
Total	**74.3**	**86.0**	**11.6**	**16%**
Average Rolling Stock Operated, units				
Gondola cars	31,656	38,920	7,264	23%
Rail tank cars	14,892	13,535	-1,357	-9%
Hopper cars	144	127	-17	-12%
Locomotives	37	38	1	4%
Flat cars	96	826	730	763%
Total	**46,825**	**53,445**	**6,620**	**14%**
Average Number of Loaded Trips per Railcar				
Gondola cars	23.5	23.9	0.3	1%
Rail tank cars	28.2	28.3	0.1	0%
Hopper cars	19.5	29.8	10.3	53%
Flat cars	12.1	32.4	20.3	167%
Total	**25.0**	**25.1**	**0.2**	**1%**
Average Distance of Loaded Trip, km				
Gondola cars	1,769	1,706	-62	-4%
Rail tank cars	1,201	1,076	-125	-10%
Hopper cars	568	396	-172	-30%
Flat cars	1,852	1,636	-216	-12%
Total	**1,561**	**1,521**	**-40**	**-3%**

Operation of rolling stock (excluding Engaged Fleet)	2012	2013	Change	% change
Average Price per Trip				
Average Price per Trip, US$	992	907	-84	-9%
Average Price per Trip, RUB	30,813	28,947	-1,866	-6%
Net Revenue from Operation of Rolling Stock by cargo type, US$ million				
Metallurgical cargoes	**433.9***	**390.8***	**-43.0**	**-10%**
Ferrous metals	269.3*	218.9*	-50.4	-19%
Scrap metal	28.8*	18.0*	-10.9	-38%
Iron ore	135.7*	154.0*	18.3	13%
Oil products and oil	**493.2***	**601.8***	**108.7**	**22%**
Coal (including coke)	**104.2***	**105.6***	**1.4**	**1%**
Construction materials (including cement)	**66.5***	**65.6***	**-0.9**	**-1%**
Other	**61.2***	**53.9***	**-7.3**	**-12%**
Total	**1,159.0***	**1,217.8***	**58.8**	**5%**
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (including ferrous metal, scrap metal and iron ore)	37%	32%	–	–
Oil products and oil	43%	49%	–	–
Coal (including coke)	9%	9%	–	–
Construction materials (including cement)	6%	5%	–	–
Other	5%	4%	–	–
Total	**100%**	**100%**	**–**	**–**
Net Revenue from Operation of Rolling Stock by largest clients (including their affiliates and suppliers), **%**				
RN Holding (former TNK-BP)	21%	28%	–	–
MMK	13%	17%	–	–
Metalloinvest	13%	13%	–	–
Evraz	7%	3%	–	–
Gazprom Neft	6%	8%	–	–
Lukoil	4%	2%	–	–
Rosneft	2%	1%	–	–
Severstal	2%	2%	–	–
Mechel	2%	1%	–	–
TMK	1%	1%	–	–
Other (including small and medium enterprises)	28%	23%	–	–
Empty Run Ratio				
Gondola cars	38%	38%	–	–
Rail tank cars, hopper cars and flat cars	105%	109%	–	–
Total Empty Run Ratio	**57%**	**53%**	**–**	**–**
Empty Run Costs, US$ million	**253.9***	**309.8***	**55.9**	**22%**
Share of Empty Run Kilometres Paid by Globaltrans	**81%**	**89%**	**–**	**–**

Engaged Fleet	2012	2013	Change	% change
Net Revenue from Engaged Fleet, US$ million	**18.0***	**58.6***	**40.5**	**225%**

	As at 31 December			
Employees	2012	2013	Change	% change
Employees by departments (simplified)				
Operations	802	1,102	300	37%
Administrative	383	518	135	35%
Total	**1,185**	**1,620**	**435**	**37%**

Definitions

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

Adjusted EBITDA (a non-GAAP financial measure) represents EBITDA excluding "Net foreign exchange transaction (gains)/losses on borrowings and other liabilities", "Net foreign exchange transaction (gains)/losses on cash and cash equivalents and other monetary assets", "Share of profit of associates", "Other gains – net" and "(Gain)/loss on sale of property, plant and equipment.

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

Adjusted Revenue (a non-GAAP financial measure) is calculated as "Total revenue" less the following "pass through" items "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations".

Average Distance of Loaded Trip is calculated as the sum of the 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, rolling stock leased out or Engaged Fleet).

Dividend Pay-out Ratio calculated as a share of Profit for the year attributable to owners of the Company.

EBITDA (a non-GAAP financial measure) represents "Profit for the year" before "Income tax expense", "Finance costs – net" (excluding "Net foreign exchange transaction (gains)/losses on borrowings and other liabilities" and "Net foreign exchange transaction (gains)/losses on cash and cash equivalents and other monetary assets"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

Engaged Fleet is defined as rolling stock subcontracted or otherwise engaged from a third-party rail operator for a loaded trip from the point of origination to the cargo's destination, at which point the railcar is then released to such third-party.

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 RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS. Empty Run Costs do not include costs of relocation of rolling stock to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, rolling stock leased in or leased out and Engaged Fleet.

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, rolling stock leased out or Engaged Fleet).

Free Cash Flow (a non-GAAP financial measure) is calculated as "Net cash from operating activities" (after changes in working capital and tax paid) less "Purchases of property, plant and equipment" (which includes maintenance CAPEX) and "Interest paid".

Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as the sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km. It includes volumes transported by the Engaged Fleet, unless otherwise stated.

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 Russian 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.

GDRs or Global Depositary Receipts of the Company each representing one ordinary share.

Imputed Consolidated Net Profit is based on the Consolidated Financial Statements and calculated according to the following formula: ***"NP = NPcons - Adjcons"***, where ***"NP"*** is the imputed consolidated net profit; ***"NPcons"*** is consolidated net profit of the Group attributable to the owners of the Group as shown in the Consolidated Financial Statements for the past financial year; ***"Adjcons"*** are non-cash adjustments determined by the Board including but not limited to: (i) negative goodwill; (ii) non-cash results of mergers, acquisitions and disposals of shares of Group subsidiaries, joint ventures or associates; (iii) share of profit of associates; and (iv) the results of the issuing, amortisation and the revaluation of guarantees. Consolidated Financial Statements mean the Group's consolidated financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure) is presented as part of the "Infrastructure and locomotive tariffs: empty run trips and other tariffs" component of "Cost of sales" reported under EU IFRS. This cost item includes the costs of relocation of rolling stock to and from maintenance, transition of purchased rolling stock to its first place of commercial utilisation, and relocation of rolling stock in and from lease operations as well as other expenses.

Leased-in Fleet is defined as rolling stock fleet leased-in under operating leases, including both railcars and locomotives.

Leased-out Fleet is defined as rolling stock fleet leased out to third parties under operating leases.

Market Share is calculated using the Group's own information as the numerator and information published by Rosstat as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume and includes volumes transported by Engaged Fleet.

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 Engaged Fleet (a non-GAAP financial measure) represents the net sum of the price charged for transportation to clients by the Group utilising Engaged Fleet less the loaded railway tariff charged by RZD (included in the EU IFRS line item "Infrastructure and locomotive tariffs: loaded trips") less the cost of attracting fleet from third-party operators (included in the EU IFRS line item "Services provided by other transportation organisations").

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", "Services provided by other transportation organisation" and Net Revenue from Engaged Fleet.

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", and "VAT recoverable", less the sum of the current portions of "Trade payables to third parties", "Prepayments for property, plant and equipment", "Trade payables to related parties", "Advances from customers for transportation services", "Advances from related parties for sale of wagons", "Accrued expenses", and "Other payables to third 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 the "pass through" items: "Infrastructure and locomotive tariffs: loaded trips" and "Services provided by other transportation organisations" and non-cash items: "Depreciation of property, plant and equipment", "Amortisation of intangible assets", "Impairment charge for receivables" and "(Gain)/loss on sale of 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" and "(Gain)/loss on sale of 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".

Owned Fleet is defined as the rolling stock fleet owned and leased in under finance lease as at the end of the reporting period. It includes railcars and locomotives unless otherwise stated and excludes Engaged Fleet.

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 to and from maintenance, purchased rolling stock in transition to its first place of commercial utilisation, and rolling stock leased out or Engaged Fleet) in the relevant period.

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

Total Fleet is defined as the total rolling stock owned and leased in under finance and operating leases as at the end of period. It includes railcars and locomotives unless otherwise stated and excludes Engaged Fleet.

Transportation Volume is a measure of freight carriage activity over a particular period measuring weight of cargo carried in million tonnes. It includes volumes transported by Engaged Fleet, unless otherwise stated.

Presentation of financial and other information

The next two pages explain 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 2013 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 2013 are included in Appendix 2 "Directors' report and parent company financial statements". 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.

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, Dividend Pay-out Ratio, EBITDA, Empty Run Costs, Free Cash Flow, Imputed Consolidated Net Profit, Infrastructure and Locomotive Tariffs – Other Tariffs, Net Debt, Net Debt to Adjusted EBITDA ratio, Net Revenue from Engaged Fleet, Net Revenue from Operation of Rolling Stock, Net Working Capital, Total Operating Cash Costs, Total Operating Non-Cash Costs, Other Operating Cash Costs. 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 55-56 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 2013 is provided on pages 51-54 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 55-56 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 transported by Engaged Fleet unless otherwise stated. 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" 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.

Governance

> We believe efficient corporate governance is essential to ensuring the successful running of the Group

CORPORATE GOVERNANCE

Our vision of being a leading private freight rail group requires procedures of the highest standard

Our adopted key principles are promoted and applied across all levels of the Group in order to establish effective and transparent corporate governance

Globaltrans' Board of Directors believes that effective corporate governance is essential to the long-term success of the Group. It is therefore committed to maintaining high standards of governance throughout the Group and to ensuring that the interests of all shareholders are given due consideration. Globaltrans' Board has a balanced composition of Executive and Non-Executive Directors as well as Independent Directors. Consequently, the Group believes it offers an open, responsive working environment, which is critical to delivering a strong performance.

CORPORATE GOVERNANCE POLICIES

In 2008 when the Company floated and new public investors joined the shareholder base, Globaltrans adopted principles of the UK Code of Corporate Governance, requiring that the interests of all shareholders be given due consideration. Globaltrans' corporate governance policies and practices are designed to ensure that the Group upholds its responsibilities to shareholders. All employees are required to comply with the guidelines contained in these policies and procedures and the management team has responsibility for ensuring that all departments adhere to them. These key principles are promoted and applied across all levels of the Group in order to establish effective and transparent corporate governance.

Globaltrans' corporate policies include, inter alia:

- Appointment Policy for the Board of Directors and Committees;
- Terms of Reference of the Board of Directors;
- Terms of Reference of the Audit Committee;
- Terms of Reference of the Nomination Committee;
- Terms of Reference of the Remuneration Committee;
- Code of Ethics and Conduct;
- Business Continuity Policy;
- Disclosure Policy;
- External Auditor Independence Policy;
- Dividend Policy;
- Minority Shareholders Policy;
- Code on Practice on Dealings in Securities.

Full details of the Group's governance policies can be found on the corporate website at:
www.globaltrans.com/about-us/corporate-governance/governance-policies

BOARD OF DIRECTORS

Globaltrans is controlled through its Board of Directors (the "Board"). The Board is responsible for the overall conduct of the Group's business. The Group's Directors are expected to act in a manner that promotes the long-term success of the Company for the benefit of shareholders.

The Board's role is to:

- Provide leadership, set the overall strategy, and ensure that the necessary components 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;
- Monitor and review management performance;
- Set Group values and standards, and ensure that obligations to shareholders and other stakeholders are understood and met;
- Maintain a sound system of internal control and risk management in order to safeguard shareholders' investment and the Company's assets.

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 an effective governance framework is in place, including processes for financial reporting and compliance with relevant regulations.

The Board recognises 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 and efficient 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. Board members' biographies are presented in brief on the following pages 66-69. 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 last two years were periods of rapid expansion for the Group, in line with its ambitious development strategy to grow organically and through selective acquisitions. The success of the strategy meant that the Company, while better positioned for growth, also has greater scale and complexity. This raised

The Board recognises the need for an appropriate balance between Executive and Non-Executive Directors, together with the presence of Independent Directors

The new members of the Board brought with them knowledge, skills and experience in the areas of international commodity markets, oil products and oil rail transportation, and rolling stock procurement as well as financial management

Board members actively participate in the development of strategic objectives and monitor the performance of Executive management in achieving these objectives

the question of whether there was a need to add to the composition of the Board and expand its competencies to support the Group's further development.

In April 2013 the Annual General Meeting of shareholders approved the new Board which was expanded to 15 members. The new members of the Board brought with them knowledge, skills and experience in the areas of international commodity markets, oil products and oil rail transportation, and rolling stock procurement as well as financial management. Following the Board's restructuring, the Chairman is now an Independent Non-Executive Director, and the overall number of Independent Directors has increased from two to four. In addition, all Board committees are headed by Independent Directors.

Board members actively participate in the development of strategic objectives and monitor the performance of Executive management in achieving these objectives. The involvement of the Independent Directors is particularly important in ensuring that proposals submitted by management are reviewed properly and challenged constructively, 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 Globaltrans conducts its business. The Group endeavours to ensure that the interests of minority shareholders are fairly represented through the involvement of these Independent Directors.
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.

Mr. Michael Zampelas, the Chairman and Independent Non-Executive Director who succeeded Mr. Alexander Eliseev in April 2013, is responsible for the leadership of the Board, ensuring its effectiveness and setting its agenda. One of his main goals in 2013 was to involve the new Board members as quickly as possible and ensure the consistent, efficient performance of the Board. As Chairman, 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 for implementing the strategy laid down by the Board.

The Board's performance in 2013

The Board meets at least four times a year. Fixed meetings are scheduled at the end of each year, while ad-hoc meetings are called when there are important 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 Directors' physical presence at the meeting.
In 2013 the Board met formally 14 times

The Board has delegated specific responsibilities to the Audit Committee, the Nomination Committee and the Remuneration Committee

to review current performance and to discuss and approve important business decisions. A large proportion of these Board meetings were also attended by members of the Executive management, who provided the Board with information on the Group's performance against the business plan and budget, and updates on market conditions.

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;
- Approval of appointments to the Board of Directors of subsidiaries.

Ad-hoc meetings

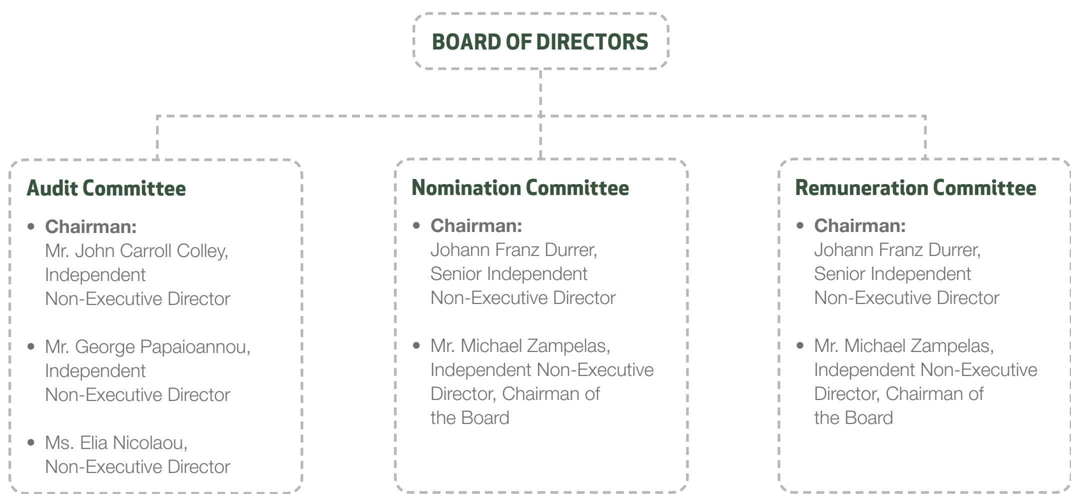
- Approval of the reorganisation plan for Ferrotrans and Sevtekhnotrans (both 100% subsidiaries of the Company) aimed at optimising personnel-related, administrative and other costs through the elimination of duplicate overheads and commercial functions;
- Approval and execution of a call option for the purchase of 50.9% in wagon repair depot (ZAO Ural Wagonrepair Company) and its subsequent recapitalisation;
- Approval of material borrowings and pledges by subsidiaries as well as the dividend distribution by the subsidiaries;
- Approval of intra-group share transfers by the Company's shareholders (the Company has adopted a code of practice on dealings in securities as described below, which among other things prescribes the shareholders of the Company to request consent of the Board for any transfer of shares);
- Changes in responsibilities of members of the Board and other matters.

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 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 under letters of appointment. These specify the terms of appointment and the remuneration of Directors. Appointments are effective until the next Annual General Meeting of shareholders of the



Company. 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 the 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 19 April 2013. Please refer to Note 30 (d) of the consolidated financial statements (Appendix 1 "Directors' report and consolidated financial statements" of this Annual Report) for details of remuneration paid to the Board and key members of management.

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 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 three Directors, two of whom are independent. The Committee is chaired by Mr. John Carroll Colley and its other members are Ms. Elia Nicolaou and Mr. George Papaioannou.

The 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. It also oversees the relationship with the Company's external auditors, including reviewing the audit process and 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. In 2013 the Audit Committee met three times and the principal issues that were considered included:

- Review of the external auditor's letter to the Audit Committee following its full-year audit for 2012;
- Review of the financial statements of the Company and consolidated financial statements of the Group for 2012 and interim financial results for

CONTINUED ON P70

MEMBERS OF THE BOARD OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Michael Zampelas

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

Michael Zampelas was appointed to the Board in March 2008 in the role of Senior Independent Non-Executive Director. Since 2013 Mr. Zampelas has been Chairman of the Board of Globaltrans 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). Since March 2008 he has held the Position of Vice-President of the Board of Eurobank EFG Cyprus Limited and the Chairman of its Audit Committee. He is a chartered accountant and a Fellow of the Institute of Chartered Accountants in England and Wales. From 2002 until 2006, Mr. Zampelas was the elected mayor of Nicosia and he is currently the Honorary Consul General of Estonia in Cyprus, a role he has held since 1997.

Johann Franz Durrer

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

Dr. Johann Franz Durrer was appointed to the Board in March 2008 as an Independent Non-Executive Director. He is Chairman of the Remuneration and Nomination Committees. Dr. Durrer 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. He graduated from the University of Zurich with a doctorate in Economics and is a member of the Swiss Fiduciary Association.

John Carroll Colley

Independent Non-Executive Director, Chairman of the Audit Committee

John Carroll Colley was appointed to the Board in April 2013 as an Independent Non-Executive Director. He is Chairman of the Audit Committee. Mr. Colley has extensive experience in international trade and risk management within both the public and private sectors. Currently he is the Principal of Highgate Consulting, a global advisory consulting company. From 2007 to 2010 Mr. Colley, who is fluent in Russian, was Russia country manager at Noble Resources SA. Prior to that, Mr. Colley held a variety of positions in the public sector, including at the Office the US Trade Representative and at the US Department of Commerce in Washington, DC. Mr. Colley also worked for Linkful Ltd and Noble Resources SA in Moscow from 1992 to 1999. He holds an M.A. in History and a B.A. in International Affairs and Russian Studies from the University of Virginia.

George Papaioannou

Independent Non-Executive Director

George Papaioannou was appointed to the Board in April 2013 as an Independent Non-Executive Director. Mr. Papaioannou is a qualified Chartered Accountant. He serves as a member of the Audit Committee of Globaltrans. He is a fellow member of the Institute of Chartered Accountants in England and Wales. He has more than 16 years of experience in financial reporting, risk management, audit, financial performance analysis and taxation. In 2004, Mr. Papaioannou founded G. Papaioannou Auditors Limited which provides accounting, audit, tax and consulting services. From 2002 to 2004 he has worked at Grant Thornton, an audit firm based in Cyprus. Prior to that, he has worked for PricewaterhouseCoopers. He holds a degree in Accounting and Financial Management from the University of Essex, UK.

NON-EXECUTIVE DIRECTORS

Alexander Eliseev
Non-Executive Director

Alexander Eliseev joined the Board in March 2008 and serves as a Non-Executive Director. He served as Chairman of the Board until March 2013. Mr. Eliseev co-founded Globaltrans and has been actively involved in reforming the Russian rail market and introducing market-based principles in rail transportation. Mr. Eliseev has spent more than 15 years working in senior management positions, mostly in the rail sector. He is also the Chairman of the Boards of the New Forwarding Company, Sevtekhnotrans, Steeltrans, BaltTransServis and Ferrotrans, which are subsidiaries of Globaltrans. He graduated from the Second Moscow Medical Institute, Russian State Medical University, where he studied Biophysics.

Andrey Gomon
Non-Executive Director

Andrey Gomon was appointed to the Board in April 2013 as a Non-Executive Director. He has more than 10 years of management experience in the railway industry. From 2006 to 2012 he was the CEO of Transoil, successfully managing the operations of one of the largest oil transportation companies in Russia. Prior to that, he was CFO of Transoil from 2003 to 2006. Mr. Gomon graduated from St. Petersburg State University with a degree in Economics in 1999 and obtained an MBA from INSEAD in 2002. Mr. Gomon is also a member of the Boards of the New Forwarding Company, Sevtekhnotrans, Steeltrans, BaltTransServis and Ferrotrans, which are subsidiaries of Globaltrans.

Mikhail Loganov[1]
Non-Executive Director

Mr. Loganov has extensive experience in corporate finance, risk management and business administration acquired during a career primarily across the transportation and logistics industry in Russia. He is currently the Chief Financial Officer and an Executive member of the Board of Global Ports Investments PLC. Until October 2013, he served as the Managing Director and Executive member of the Board of Directors of Globaltrans. Prior to that he held various senior finance positions within Globaltrans group. Mr. Loganov started his career with American Express (Europe) Ltd in the UK as a financial analyst in 2001. He graduated with honours from the University of Brighton in the UK with a degree in Business Studies with Finance.

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

Elia Nicolaou joined the Board in March 2008 and serves as a Non-Executive Director. Ms. Nicolaou is the Company Secretary and a member of the Audit Committee. Ms. Nicolaou has extensive experience in commercial and corporate law. She is currently the Managing Director of Amicorp (Cyprus) Ltd. 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. 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.

1. Michael Thomaides was appointed as a Director of the Company to replace Mr. Loganov who left the Board following his appointment as become Chief Financial Officer of Global Ports Investments PLC, Russia's leading container port operator. The authority of Mr. Loganov as a member of the Board of Globaltrans was therefore terminated in April 2014. Mr. Thomaides, who was a Director of Globaltrans from 2004 to 2008, currently serves as a member of the Board of Directors of Global Ports Investments PLC. Mr. Thomaides graduated with Honours from London Southbank University and has a Bachelor of Science Degree in consumer product management. He is a member of the Cyprus Chamber of Commerce.

Melina Pyrgou
Non-Executive Director

Melina Pyrgou is a barrister and director at Pyrgou Law Firm, a Cyprus-based corporate law practice servicing international clients. She was appointed to the Board in April 2013 as a Non-Executive Director. Ms. Pyrgou has more than 20 years of experience in the field of corporate law and litigation. In 2007 she joined PricewaterhouseCoopers in Nicosia, Cyprus as a Director with the aim of creating a legal department for the firm. Previous to that she was a Partner at Kinanis – Pyrgou and Co., where she headed the Litigation department. From 1991 to 1994 she was an Associate at G. Colokassides and Co. and Lellos Demetriades and Co, with her main focus on litigation. Ms. Pyrgou won a Scholarship from the University of Geneva, Switzerland, where she received a Diploma in Environmental Law. She holds a degree of Bachelor of Social Sciences in Law and Sociology from the University of Keele, UK.

Marios Tofaros
Non-Executive Director

Marios Tofaros was appointed to the Board as a Non-Executive Director in April 2013. Mr. Tofaros is also a Director of the client accounting department at Amicorp (Cyprus) Ltd. He held the position of financial accountant at Depfa Investment Bank Ltd from 2004 until 2008. Prior to that, he worked as a financial officer at Louis Catering Ltd from 2003 to 2004 and at KPMG Cyprus, where he held various positions in the Audit Department. He graduated from the University of Kent at Canterbury in the UK with a B.A. in Accounting, Finance & Economics. He also holds a Master's degree in Business Studies from the University of Kent at Canterbury and a Chartered Certified Accountant (FCCA) diploma. Mr. Tofaros is a member of the Institute of Certified Public Accountants of Cyprus.

EXECUTIVE DIRECTORS

Sergey Maltsev
Chief Executive Officer, Executive Director

Sergey Maltsev has served as CEO and as an Executive Director of the Board of Globaltrans since 2008. Mr. Maltsev co-founded Globaltrans and has been instrumental in the development of the private rail freight market in Russia. 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 named an "Honoured Railwayman of Russia". Mr. Maltsev also serves as the Chairman of the presidium of the non-profit partnership "Council of Railway Operators' Market".

Konstantin Shirokov
Executive Director

Konstantin Shirokov was appointed to the Board in March 2008 as an Executive Director. Mr. Shirokov is the Head of the Internal Audit function of the Company. Mr. Shirokov has more than ten years of management experience in a number of major companies. Prior to joining Globaltrans, Mr. Shirokov worked in senior finance roles at Mechel and worked as an economist at Glencore International. He is also a Non-Executive member of the Board of Directors of Global Ports Investments PLC and a member of its Audit and Risk Committee. 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.

Alexander Storozhev

Chief Procurement Officer, Executive Director

Alexander Storozhev joined the Board in April 2013 as an Executive Director. He has worked in senior management positions in the railway sector for over 20 years. He joined the Group as Director for transport in Sevtekhnotrans, a subsidiary of Globaltrans, in 2003. His main responsibility is the procurement of new rolling stock for the Group. He was the driving force behind the successful implementation of the Group's capital investment programmes. In 2008 he was appointed to the Boards of New Forwarding Company and Sevtekhnotrans. Currently Mr. Storozhev is a member of the Boards of New Forwarding Company, Sevtekhnotrans, Steeltrans, BaltTransServis and Ferrotrans, which are subsidiaries of Globaltrans.

Alexander Tarasov

Executive Director

Alexander Tarasov is currently a deputy Director General in Sevtekhnotrans (a subsidiary of Globaltrans). He joined the Globaltrans' Board in April 2013 as an Executive Director. Prior to that, he has held a number of management positions in number of companies in Russia. He has vast experience in financial management and analysis across a number of sectors. He graduated from the Bauman Moscow State Technical University with a degree in Engineering. He has also obtained a degree in Economics from the Moscow State University of Commerce.

Sergey Tolmachev

Executive Director

Sergey Tolmachev was appointed to the Board in April 2013 as a Non-Executive Director and became an Executive Director in October 2013. He has extensive experience in corporate finance and treasury operation as well as financial analysis and modelling. He joined N Trans Group in 2001 and since then held a number of management positions mainly in finance and treasury. He graduated from the Lomonosov Moscow State University with a degree in Mechanics and Applied Mathematics.

BOARD AND COMMITTEE MEETINGS IN 2013 AND THE ATTENDANCE OF DIRECTORS

	Board of Directors		Nomination Committee		Remuneration Committee		Audit Committee	
	E	A	E	A	E	A	E	A
Michael Zampelas	14	14	2	2	2	2	—	—
Johann Franz Durrer	14	14	2	2	2	2	—	—
Sergey Maltsev	14	12	—	—	—	—	—	—
Alexander Eliseev	14	6	—	—	—	—	—	—
Mikhail Loganov	14	13	—	—	—	—	—	—
Elia Nicolaou	14	14	—	—	—	—	3	3
Konstantin Shirokov	14	13	—	—	—	—	—	—
John Carroll Colley	9	9	—	—	—	—	3	3
George Papaioannou	9	9	—	—	—	—	3	3
Andrey Gomon	9	7	—	—	—	—	—	—
Melina Pyrgou	9	9	—	—	—	—	—	—
Alexander Storozhev	9	9	—	—	—	—	—	—
Marios Tofaros	9	9	—	—	—	—	—	—
Sergey Tolmachev	9	9	—	—	—	—	—	—
Alexander Tarasov	9	6	—	—	—	—	—	—

E = Number of meetings eligible to attend during the year

A = Number of meetings attended

the six months ended 30 June 2013, 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 Company's external auditor for the year 2013. The Committee recommended the reappointment of the external auditors to the Board which, in turn, proposed their reappointment to the Annual General Meeting of shareholders of the Company;
- Review of regulatory announcements of the Group of a financial nature;
- Review of internal controls and risk management processes;
- Approval of non-audit services to be provided to the Group by the external auditor;
- 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 appointment 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 Group. 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 two Directors and meets at least once a year. The Committee is chaired by Dr. Johann Franz Durrer, Senior Independent Non-Executive Director, and the other member is Mr. Michael Zampelas.

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

FROM P65

Globaltrans bases its risk management activity on a series of well-defined risk management principles, derived from experience, best practice and in accordance with corporate governance principles

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 2013, in March and December. The principal issues considered during the meeting in March were the review of the Annual Report for 2012 and the composition of the Board and its Committees. The Committee met for a second time in December to review the changes made to the Board during the year and to advise on the reappointment of the existing members of the Board to the next Annual General Meeting of the Company.

Remuneration Committee

The Remuneration Committee comprises two Directors and meets at least once a year. The Committee is chaired by Dr. Johann Franz Durrer, Senior Independent Non-Executive Director, and the other member is Mr. Michael Zampelas.

The Committee is responsible for, among other matters, determining the remuneration of Executive Directors and reviewing the Company's remuneration policies. The remuneration of Independent Directors is a matter for the Chairman 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 2013 to discuss and consider the appropriateness of the level of remuneration of the Executive Directors and senior management of the Group.

RISK MANAGEMENT

The Board believes that the identification and management of risk is central to achieving the corporate objective of delivering long-term value to shareholders. The Group has established a risk register which the Board reviews and considers on an annual basis. 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 in accordance with corporate governance principles. The Group's risk management principles consist of nine interdependent components:

- **Enterprise-wide.** Risks that the Group faces 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 could 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 mitigate all risks the Group faces, 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 easily understood for the Group's employees;
- **Evolving.** The Group's risk management system should be continually evolving. The management of risk 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 adopts 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 between risk and return. Globaltrans defines four types of risks: strategic, operational, compliance and financial.

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 safekeeping 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" of this Annual Report.

Corporate Responsibility

"In my experience the most important investment any organisation can make is in its people"

MICHAEL ZAMPELAS
CHAIRMAN OF THE BOARD
INDEPENDENT NON-EXECUTIVE DIRECTOR

CORPORATE RESPONSIBILITY

We are fully committed to protecting our employees and the environment

SOCIAL RESPONSIBILITY

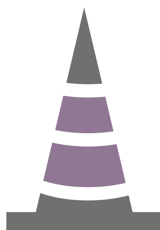
Globaltrans recognises the importance of being a strong corporate citizen and strives to ensure that the continuous development of its business positively affects the communities and the environment in which the Company operates. The Group's top priorities are Health and Safety, Charity support, Environmental preservation and Employee development.

HEALTH AND SAFETY

Employees' health and safety are of paramount importance for Globaltrans. Over the years, the Group has created a safe working environment by devising and implementing clear rules and procedures. These rules are consistently communicated to all employees and are enforced by regular inspections.

As a result of our strict commitment to occupational health and safety, there were no major incidents in 2013. Every minor incident is property investigated for any potential breaches of our health and safety rules.

Globaltrans will continue to improve its health and safety strategy to ensure that the most appropriate systems and checking processes are in place.



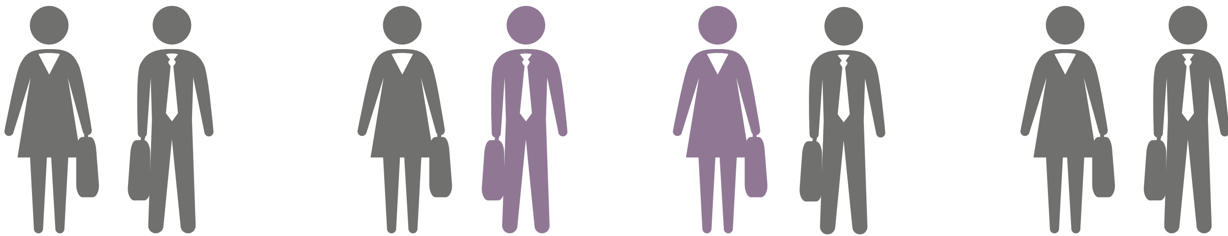
PROTECTING THE ENVIRONMENT

Protecting our environment is an important priority for Globaltrans. The Group has created an integrated environmental policy to organise and coordinate environmental activities.

At the basis of our environmental policy is compliance with international, federal, regional regulatory requirements and industry standards of protection.

On the Group level, Globaltrans is focused on minimising its impact on the environment by preserving natural resources and reducing energy use. The Group is committed to open dialogue with relevant non-governmental organisations to further reduce its carbon footprint.

Finally, on the industry level, Globaltrans aims to actively cooperate with other rail freight operators to promote the use of rail freight as a more environmentally-friendly alternative to other modes of transportation for the future.



EMPLOYEE DEVELOPMENT

The Group's long-term success is ultimately based on the professionalism and expertise of its employees. Globaltrans has invested in creating a system of continuous employee development, from multi-layer recruitment to training and vocational education.

To attract and retain the best talent, Globaltrans focuses on creating the most comfortable working conditions for employees and providing a market-leading compensation and benefits package, including:

- Industry-leading salaries and inflation-linked wages;
- Additional maternity leaves;
- Benefit payments for employees' children;
- Medical care under the Company's system of voluntary medical insurance;
- An additional retirement bonus.

Consistent investment in the Company's human capital results into the high employee retention rate. In turn, Globaltrans is rewarded with high productivity, which is ultimately one of the drivers of the Company's continuous growth.

Globaltrans has always actively supported charity activities in the regions where it operates. Traditionally, the Company focused on supporting children with disabilities, orphans, and children living in foster homes. What has started as sporadic acts of kindness by the Company, its management and employees, has now turned into a number of long-term beneficial programmes.

For example, since 2009, Globaltrans has supported "Life Line", a charitable fund that gives children with serious illnesses a chance to recover and return to normal life by making expensive medical assistance accessible for all children. The fund has already saved the lives of more than 6,600 children and Globaltrans is proud to be part of this important initiative.

1. As at 31 December 2013.

Appendices

Directors' report and consolidated financial statements for the year ended 31 December 2013

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Board of Directors and other officers

Board of Directors

Mr. Michael Zampelas
Chairman of the Board of Directors
Independent Non-Executive Director
Member of Remuneration and Nomination Committees

Mr. Sergey Maltsev
Executive Director, Chief Executive Officer
Alternate Director: Mr. Artemis M. Thomaides

Mr. Konstantin Shirokov
Executive Director

Mr. Mikhail Loganov
Non-Executive Director as from 21 October 2013
Executive Director until 20 October 2013

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

Mr. Alexander Eliseev
Non-Executive Director
Alternate Director: Ms. Ekaterina Golubeva (appointed on 2 September 2013)

Dr. Johann Franz Durrer
Senior Independent Non-Executive Director
Chairman of Remuneration and Nomination Committees

Mr. Alexander Storozhev
Executive Director
Appointed on 19 April 2013
Alternate Director: Ms. Elia Nicolaou

Mr. Alexander Tarasov
Executive Director
Appointed on 19 April 2013
Alternate Director: Mr. Mikhail Loganov

Mr. John Carroll Colley
Independent Non-Executive Director
Chairman of the Audit Committee
Appointed on 19 April 2013

Mr. George Papaioannou
Independent Non-Executive Director
Member of the Audit Committee
Appointed on 19 April 2013

Mr. Andrey Gomon
Non-Executive Director
Appointed on 19 April 2013
Alternate Director: Ms. Melina Pyrgou

Ms. Melina Pyrgou
Non-Executive Director
Appointed on 19 April 2013

Mr. Marios Tofaros
Non-Executive Director
Appointed on 19 April 2013

Mr. Sergey Tolmachev
Executive Director since 21 October 2013
Non-Executive Director from appointment to 20 October 2013
Appointed on 19 April 2013

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 2013. 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 and leased rolling stock as well as fleet engaged from third party rail operators, 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 2013 was US$251,638 thousand (2012: US$311,578 thousand). On 31 December 2013 the total assets of the Group were US$2,856,577 thousand (2012: US$2,949,817 thousand) and net assets were US$1,581,870 thousand (2012: US$1,605,860 thousand).

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

On 12 February 2013, the Group has completed the purchase of 100% of the share capital of OOO Steeltrans ("ST") (formerly OOO MMK-Trans), the freight rail transportation operator, for a total consideration of US$251,317 thousand. Steeltrans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal.

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 principal risks and uncertainties 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 returns-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 10 and 11. 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 2013.

In April 2013, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2012 in the amount of 70 US cents per ordinary share, amounting to a total dividend of US$125,118,641.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2013 in the amount of 62 US cents per ordinary share, amounting to a total dividend of US$110,819,368.

Share capital

As at 31 December 2013 the issued share capital of the Company comprised 178,740,916 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 15 members (7 members in 2012), ten (four for the year 2012) of whom are Non-Executive Directors (including the Chairman). Four (two for the year 2012) of the Non-Executive Directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2013 and at the date of this report are shown on page 1. On 19 April 2013 there were changes in the composition of the Board of Directors, where 8 new directors including 2 new independent directors have been appointed.

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 with the only exception that Mr Loganov who acted as an Executive Director until 20 October and has since been acting as a Non-Executive Director. Mr Sergey Tolmachev who was appointed on 19 April 2013 as a Non-Executive Director, was appointed as an Executive Director on 21 October 2013.

The total remuneration of the members of the Board of Directors paid by the Group in 2013 amounted to US$3,627 thousand (2012: US$7,935 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 2013 and 31 December 2012 are shown below:

Name	Type of holding	2013	2012
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	**11,318,909**	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	**8,021,339**	8,021,339
Johann Franz Durrer	Holding of GDRs	**160,606**	160,606

Total number of issued shares of the Company as at 31 December 2013 was 178,740,916 (31 December 2012: 178,740,916).

Events after the balance sheet date

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

Report of the Board of Directors continued

Board performance

The Board held 14 meetings in 2013. On 19 April 2013 the number of members of the Board of Directors have been increased from seven to fifteen. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	6
Michael Zampelas	14
Johann Franz Durrer	14
Sergey Maltsev	12
Mikhail Loganov	13
Elia Nicolaou	14
Konstantin Shirokov	13
Carroll Colley	9
George Papaioannou	9
Andrey Gomon	7
Melina Pyrgou	9
Alexander Storozhev	9
Marios Tofaros	9
Sergey Tolmachev	9
Alexander Tarasov	6

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 three Directors, two of whom are independent, and meets at least four times each year. The Audit Committee is chaired by Mr. J. Carroll Colley and is also attended by Mr. Papaioannou and 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 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 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.

Nomination Committee

The Nomination Committee comprises two Independent Directors and meets at least once a year. The Nomination Committee is chaired by Dr. Durrer and Mr. Zampelas is the other member. 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.

Remuneration Committee

The Remuneration Committee comprises two Independent Directors and meets at least once a year. The Remuneration Committee is chaired by Dr. Durrer and Mr. Zampelas is the other member. 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.

Corporate governance

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 Corporate Governance Code (formerly the Combined Code), 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 non-controlling 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 19 April 2013.

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 nine representative offices during 2013 (ten branches and twelve representative offices during 2012).

Treasury shares

In 2013 the Company didn't own or acquire either directly or through a person in his own name, but on 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. All of such treasury shares were sold by the Company in the context of the offering in July 2012 at the price of US$16.50 per share for the total value of US$60,012,430.

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 2014, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Report of the Board of Directors continued

Auditors

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

By Order of the Board

Sergey Tolmachev
Director
Limassol, 28 March 2014

Directors' responsibility

The Company's 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 it necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Each of the Directors confirms to the best of his or her knowledge that the consolidated financial statements (presented on pages 10 to 67) give a true and fair view of the financial position of Globaltrans Investment PLC (the Company") and its subsidiaries (together with the Company, the "Group") as at 31 December 2013 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.

Further, each of the Directors confirms to the best of his or her knowledge that:

(i) proper books of account have been kept by the Company;
(ii) the Company's consolidated financial statements are in agreement with the books;
(iii) the consolidated financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required; and
(iv) the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

By order of the Board

Sergey Tolmachev
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 2013, 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.

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 2013, 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.

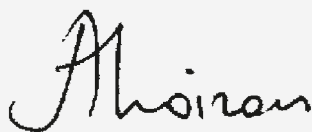
Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, 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, so far as appears from our examination of these books.
- 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 Laws of 2009 and 2013 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.



Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 28 March 2014

Consolidated income statement
for the year ended 31 December 2013

	Note	**2013 US$'000**	2012 US$'000
Revenue	5	**2,327,549**	2,114,295
Cost of sales	6	**(1,727,910)**	(1,450,215)
Gross profit		**599,639**	664,080
Selling and marketing costs	6	**(16,910)**	(4,951)
Administrative expenses	6	**(132,167)**	(123,796)
Other gains – net	7	**1,164**	1,153
Operating profit		**451,726**	536,486
Finance income	9	**10,287**	–
Finance costs	9	**(120,056)**	(124,545)
Finance costs – net	9	**(109,769)**	(124,545)
Share of profit of associates	14	**213**	339
Profit before income tax		**342,170**	412,280
Income tax expense	10	**(90,532)**	(100,702)
Profit for the year		**251,638**	311,578
Attributable to:			
Owners of the Company		**181,717**	258,016
Non-controlling interest		**69,921**	53,562
		251,638	311,578
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	**1.02**	1.56

The notes on pages 16 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Profit for the year	**251,638**	311,578
Other comprehensive (loss)/income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	**(89,947)**	91,154
Other comprehensive income/(loss) for the year, net of tax	**(89,947)**	91,154
Total comprehensive income for the year	**161,691**	402,732
Total comprehensive income attributable to:		
- owners of the Company	**93,033**	341,266
- non-controlling interest	**68,658**	61,466
	161,691	402,732

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 16 to 67 are an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2013

	Note	**2013 US$'000**	2012 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**2,180,425**	2,281,868
Intangible assets	13	**346,755**	197,044
Income tax assets		**2,481**	1,800
Trade and other receivables	19	**4,897**	–
Investment in associate	14	**2,552**	2,230
Total non-current assets		**2,537,110**	2,482,942
Current assets			
Inventories	20	**17,994**	13,675
Current income tax assets		**4,773**	1,715
Trade and other receivables	19	**192,597**	263,295
Restricted cash	21	**–**	10,000
Cash and cash equivalents	21	**104,103**	178,190
Total current assets		**319,467**	466,875
TOTAL ASSETS		**2,856,577**	2,949,817
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	22	**17,875**	17,875
Share premium	22	**949,471**	949,471
Common control transaction reserve		**(368,476)**	(368,476)
Translation reserve		**(145,221)**	(56,537)
Capital contribution		**90,000**	90,000
Retained earnings		**862,850**	815,259
Total equity attributable to the owners of the Company		**1,406,499**	1,447,592
Non-controlling interest		**175,371**	158,268
Total equity		**1,581,870**	1,605,860
Non-current liabilities			
Borrowings	24	**737,129**	837,175
Deferred tax liabilities	25	**143,889**	125,074
Total non-current liabilities		**881,018**	962,249
Current liabilities			
Borrowings	24	**276,971**	237,933
Trade and other payables	26	**116,273**	135,568
Current tax liabilities		**445**	8,207
Total current liabilities		**393,689**	381,708
TOTAL LIABILITIES		**1,274,707**	1,343,957
TOTAL EQUITY AND LIABILITIES		**2,856,577**	2,949,817

On 28 March 2014, the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

By order of the Board

Sergey Tolmachev
Director

Konstantin Shirokov
Director

The notes on pages 16 to 67 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity
for the year ended 31 December 2013

	Note	Attributable to the owners of the Company									
		Share capital US$'000	Share premium US$'000	Common control transaction reserve US$'000	Treasury shares US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interest US$'000	Total US$'000
Balance at 1 January 2012		**15,814**	**621,227**	**(368,476)**	**–**	**(139,787)**	**90,000**	**639,283**	**858,061**	**130,994**	**989,055**
Comprehensive income											
Profit for the year		–	–	–	–	–	–	258,016	258,016	53,562	311,578
Other comprehensive income											
Currency translation differences		–	–	–	–	83,250	–	–	83,250	7,904	91,154
Total comprehensive income for 2012		–	–	–	–	83,250	–	258,016	341,266	61,466	402,732
Transactions with owners of the Company											
Issue of shares	22	2,061	337,928	–	–	–	–	–	339,989	–	339,989
Expenses related to issue of shares	22	–	(9,684)	–	–	–	–	–	(9,684)	–	(9,684)
Purchase of treasury shares	22	–	–	–	(43,173)	–	–	–	(43,173)	–	(43,173)
Sale of treasury shares	22	–	–	–	43,173	–	–	16,839	60,012	–	60,012
Dividends to owners of the Company	23	–	–	–	–	–	–	(98,879)	(98,879)	–	(98,879)
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	–	(34,192)	(34,192)
Total contributions by and distributions to owners of the Company		2,061	328,244	–	–	–	–	(82,040)	248,265	(34,192)	214,073
Total transactions with owners of the Company		**2,061**	**328,244**	**–**	**–**	**–**	**–**	**(82,040)**	**248,265**	**(34,192)**	**214,073**
Balance at 31 December 2012		**17,875**	**949,471**	**(368,476)**	**–**	**(56,537)**	**90,000**	**815,259**	**1,447,592**	**158,268**	**1,605,860**

Consolidated statement of changes in equity
for the year ended 31 December 2013

		Attributable to the owners of the Company									
	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve US$'000	Treasury shares US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interest US$'000	Total US$'000
Balance at 1 January 2013		**17,875**	**949,471**	**(368,476)**	**–**	**(56,537)**	**90,000**	**815,259**	**1,447,592**	**158,268**	**1,605,860**
Other comprehensive loss											
Currency translation differences		–	–	–	–	(88,684)	–	–	(88,684)	(1,263)	(89,947)
Total comprehensive income for 2013		–	–	–	–	(88,684)	–	181,717	93,033	68,658	161,691
Transactions with owners of the Company											
Dividends to owners of the Company	23	–	–	–	–	–	–	(125,119)	(125,119)	–	(125,119)
Dividends to non-controlling interest	23	–	–	–	–	–	–	–	–	(53,377)	(53,377)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	–	(125,119)	(125,119)	(53,377)	(178.496)
Non-controlling interest arising on business combination	15	–	–	–	–	–	–	–	–	(7,185)	(7,185)
Acquisition of non-controlling interest	16	–	–	–	–	–	–	(9,007)	(9,007)	9,007	–
Total transactions with owners of the Company		**–**	**–**	**–**	**–**	**–**	**–**	**(134,126)**	**(134,126)**	**(51,555)**	**(185,681)**
Balance at 31 December 2013		**17,875**	**949,471**	**(368,476)**	**–**	**(145,221)**	**90,000**	**862,850**	**1,406,499**	**175,371**	**1,581,870**

The notes on pages 16 to 67 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2013

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Profit before tax		**342,170**	412,280
Adjustments for:			
Depreciation of property, plant and equipment	12	**164,389**	113,043
Amortisation of intangible assets	13	**31,935**	7,733
Loss on sale of property, plant and equipment	12	**5,856**	2,120
Interest income	9	**(3,562)**	(5,643)
Interest expense	9	**122,240**	97,990
Share of profit of associates	14	**(213)**	(339)
Foreign exchange (gains)/losses on finance income/costs	11	**(8,909)**	32,198
		653,906	659,382
Changes in working capital:			
Inventories		**(1,827)**	(4,178)
Trade and other receivables		**83,837**	(24,703)
Trade and other payables		**(78,214)**	19,401
Cash generated from operations		**657,702**	649,902
Tax paid		**(83,178)**	(81,821)
Net cash from operating activities		**574,524**	568,081
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	15	**(202,999)**	(572,888)
Advance payment for acquisition of subsidiary – restricted cash	21	**–**	(10,000)
Loans repayments received from third parties		**81**	–
Purchases of property, plant and equipment		**(39,967)**	(736,911)
Proceeds from disposal of property, plant and equipment	12	**5,410**	900
Interest received		**3,531**	5,682
Net cash used in investing activities		**(233,944)**	(1,313,217)
Cash flows from financing activities			
Proceeds from borrowings		**643,306**	1,398,298
Repayments of borrowings		**(723,265)**	(666,787)
Finance lease principal payments		**(39,974)**	(47,450)
Interest paid		**(111,382)**	(90,172)
Proceeds from the issue of shares – net of expenses	22	**–**	330,305
Proceeds from the sale of treasury shares	22	**–**	60,012
Purchase of treasury shares	22	**–**	(43,173)
Dividends paid to Company's shareholders	23	**(125,119)**	(98,879)
Dividends paid to non-controlling interests	23	**(53,377)**	(34,192)
Net cash (used in)/from financing activities		**(409,811)**	807,962
Net (decrease)/increase in cash and cash equivalents		**(69,231)**	62,826
Exchange losses on cash and cash equivalents		**(4,856)**	(4,356)
Cash and cash equivalents at beginning of year	21	**178,190**	119,720
Cash and cash equivalents at end of year	21	**104,103**	178,190

Principal non-cash investing and financing transactions

The principal non-cash investing and financing transactions consist of finance leases as a lessee (Note 24).

The notes on pages 16 to 67 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 28 March 2014.

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 and leased rolling stock as well as the fleet engaged from other operators and operating lease of rail cars.

Group structure

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

				Effective % interest held	
Name	Status	Country of incorporation	Principal activities	**2013**	2012
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	**100**	100
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	**100**	100
Ferrotrans, OOO (formerly Metalloinvesttrans, OOO)	Subsidiary	Russia	Railway transportation	**100**	100
Steeltrans, OOO (formerly MMK-Trans, OOO)	Subsidiary	Russia	Railway transportation	**100**	–
Amalfico Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	**100**	–
Ural Wagonrepair Company, ZAO	Subsidiary	Russia	Repair and maintenance of rolling stock	**97**	–
Ukrainian New Forwarding Company OOO	Subsidiary	Ukraine	Railway transportation	**100**	100
BaltTransServis, OOO	Subsidiary	Russia	Railway transportation	**60**	60
RemTransServis, OOO	Subsidiary	Russia	Repair and maintenance of rolling stock	**59.4**	59.4
Ingulana Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	**60**	60
Ultracare Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	**60**	60
Spacecom AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	**65.25**	65.25
Ekolinja Oy	Subsidiary	Finland	Operating sub-lease of rolling stock	**65.25**	65.25
Spacecom Trans AS	Subsidiary	Estonia	Operating lease of rolling stock	**65**	65

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 2013 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

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

New standards, interpretations and amendments to published standards

(a) The Group has adopted the following new standards, amendments and interpretations as of 1 January 2013 that have an impact on the Group:

- **IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)** improved consistency and reduced 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 above standard did not have an impact on these financial statements, other than to improve disclosures of fair value measurement.
- **Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012)** changed 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 amended standard resulted in changed presentation of consolidated financial statements, but did not have any impact on measurement of transactions and balances.
- **Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013).** The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group's consolidated financial statements with the exception of the amendment to IAS16, following which, the Group now classifies spare parts which meet the definition of property, plant and equipment as such instead of inventories. The adoption of this amendment did not result in any reclassifications of prior year balances.

Notes to the consolidated financial statements continued

(b) The Group has early adopted the following new standards, amendments and interpretations as of 1 January 2013 that have an impact on the Group:

- **Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets"** (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group has opted to early adopt this amendment and as a result it does not disclose the recoverable amount of CGU containing goodwill when there is no impairment.

The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective or if effective, they have not yet been endorsed by the EU (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.

(c) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, that are expected to have an impact on the Group's consolidated financial statements and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement"*. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- 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.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013: EU 1 January 2014) 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 Standard is not expected to have any material impact on the Group's consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU 1 January 2014) 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 previously 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 judgements 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 Standard is expected to improve disclosures of the consolidated entities of the Group .

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU 1 January 2014) 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 amended standard is not expected to have any material impact on the Group's consolidated financial statements.

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU 1 January 2014). 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 amended standard is not expected to have any material impact on the Group's consolidated financial statements.

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 is considering the implications of the amendment and its impact on the Group.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013; EU 1 January 2014). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards are not expected to have any material impact on the Group's consolidated financial statements other than application of the relief from disclosure of certain comparative information in the notes to the financial statements.

IFRIC 21 – "Levies"(issued on 20 May 2013 and effective for annual periods beginning 1 January 2014)*. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its financial statements.

Notes to the consolidated financial statements continued

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below)*. The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014*). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group does not expect the amendments to have any impact on its financial statements.

* denotes new standards and interpretations which have not yet been endorsed 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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies. 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 acquisition 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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest or the non-controlling interest's proportionate share of the acquiree's identifiable net assets over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Indemnification assets recognised at the acquisition date continue to be measured on the same basis as the related indemnified item subject to collectability and contractual terms until they are collected, sold, cancelled or expire in the post-combination period. The entity measures the indemnification asset on the same basis as the related item, subject to any restrictions in the contractual terms such as a ceiling on the amount payable and any adjustment for the seller creditworthiness. Measurement on the same basis includes recognising any gains or losses appropriately.

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.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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. Profits and losses from intra-group transactions that are recognised in assets are also eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of the asset transferred.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests 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.

(c) Disposal of subsidiaries

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.

(d) 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.

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 is reclassified to profit or loss where appropriate.

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.

Notes to the consolidated financial statements continued

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 investor's 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, leased or engaged rolling stock

   The Group organises transportation services for clients using its own, leased or engaged rolling stock.

   There are three types of operator's services:

   - The Group has a contractual relationship with the client and sets the terms of the transactions, such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is borne by the Group. Total proceeds from clients are included in the Group's revenue (Note 5).
   - The Group has a contractual relationship with the client and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The OAO "Russian Railways" tariff is paid by the Group and recharged to the customer as a reimbursement. Under these arrangements the Group recognises turnover net of OAO "Russian Railways" tariff.
   - The Group has a contractual relationship with the customer and sets the terms of the transaction excluding the OAO "Russian Railways" tariff such as selling and payment terms, bears credit risk and controls the flow of receipts and payments. The tariff is paid directly by the customer to OAO "Russian Railways". Under these arrangements the Group recognizes revenue net of OAO "Russian railways" tariff.

Revenue is recognised in accordance to the stage of completion of the transaction.

2. Revenues from railway transportation - freight forwarding (agency fees)

   The Group 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.

Foreign currency translation

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

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions 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'.

Notes to the consolidated financial statements continued

(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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the 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. Exchange differences arising are recognised in other comprehensive income.

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. The carrying amount of the replaced cost is derecognised.

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.

Borrowing costs 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) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of non-controlling interest or the non-controlling interest's proportionate share of the identifiable net assets of the acquiree, on acquisition by acquisition basis.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the Russian open wagons/operator's services group of cash generating units.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships relate to transportation services contract with Metalloinvest Group and MMK Group. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Customer relationships are being amortised over an estimated useful life from five to seven years.

(c) 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 and goodwill 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, other than goodwill, 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.

Notes to the consolidated financial statements continued

Leases

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

The Group is the lessee

(a) Finance leases

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

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

(b) Operating leases

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

(c) Sale and leaseback

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

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

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

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, restricted cash and cash and cash equivalents in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised when the funds are advanced to the debtor/borrower.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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 consolidated 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

In the consolidated cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks less bank overdrafts if any. 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.

Restricted cash

Restricted cash includes cash deposits which have restrictions governing their use and is classified as a current or non-current asset based on the estimated remaining length of the restriction. Cash paid into escrow accounts for the purpose of future business combination transactions is included within investing activities in the statement of cash flows.

Notes to the consolidated financial statements continued

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 are included within cash flows from financing activities and 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, share premium and treasury shares

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 within a separate reserve 'treasury shares' 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 within retained earnings. The consideration initially paid for treasury shares which are subsequently re-issued is transferred from 'treasury shares' to retained earnings.

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.

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

Borrowing costs

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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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.

Notes to the consolidated financial statements continued

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 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.

Transactions with equity owners

The Group enters into transactions with its shareholders. When consistent with the nature of the transaction, the Group's accounting policy is to recognise 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. Similar transactions with non-equity holders, are recognised through the income statement in accordance with IAS39, Financial Instruments: Recognition and Measurement.

3. FINANCIAL RISK MANAGEMENT

Financial risks factors

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

Market risk

(a) Foreign exchange risk

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

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

During the first four months of 2012, the Russian Rouble has strengthened against the US Dollar, however starting from May, the value of Russian Rouble against the US Dollar depreciated. In the second half of 2012, the Russian Rouble has partially recovered its value. During 2013 the Russian Rouble has depreciated consistently against the US Dollar. The fluctuations in the exchange rate between US Dollar and Russian Rouble expose the Group to foreign exchange risk. 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 Hryvnia, which is the functional 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 2013 and 31 December 2012 are as follows:

	2013 US$'000	2012 US$'000
Assets	37,259	111,559
Liabilities	63,801	103,970

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 Group for the year ended 31 December 2013, would have increased/decreased by US$5,686 thousand (2012: 15% change, effect US$15,502 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US Dollars for the Group entities with Russian Rouble being their functional currency. Profit was less sensitive to fluctuations of the exchange rate of Russian Rouble to US Dollar for the year ended 31 December 2013 compared to 2012 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2013 (Note 24) combined with the decrease of the proportion of US Dollar denominated cash and cash equivalents as at the end of 2013.

Had US Dollar exchange rate strengthened/weakened by 10% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2013, would have decreased/increased by US$3,301 thousand (2012: 15% change, effect US$8,676 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 US Dollar to Euro for the year ended 31 December 2013 compared to 2012 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2013 (Note 24) combined with the decrease of the proportion of US Dollar denominated cash and cash equivalents as at the end of 2013.

Notes to the consolidated financial statements continued

Had US Dollar exchange rate strengthened/weakened by 25% against the Ukrainian Hryvnia and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2013, would have decreased/increased by US$8,854 thousand (2012: 15% change, effect US$5,223 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.

(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 bank deposits 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 maximizing the estimated future profit.

Had US Dollar, Euro and Russian Rouble lease and credit interest rates shifted 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$1,951 thousand for the year ended 31 December 2013 (2012: US$2,547 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 restricted cash and cash and cash equivalents.

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 'Baa'. 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, with the top ten customers accounting for 62.66% of the Group's trade and other receivables (excluding VAT receivable and prepayments) as at 31 December 2013 (2012: 54.51%).

These figures include trade and other receivables arising from business with related parties which account for Nil as at 31 December 2013 (2012: 17.97%).

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 2013 and 31 December 2012:

	Fully performing US$'000	Past due US$'000	Impaired US$'000	Impairment provision US$'000	**Total US$'000**
As of 31 December 2013					
Trade receivables	50,389	26,416	11,635	(11,635)	**76,805**
Loans originated	627	180	–	–	**807**
Other receivables	2,391	463	1,072	(1,072)	**2,854**
	53,407	27,059	12,707	(12,707)	**80,466**
As of 31 December 2012					
Trade receivables	42,177	44,337	655	(655)	**86,514**
Other receivables	4,114	732	776	(776)	**4,846**
	46,291	45,069	1,431	(1,431)	**91,360**

Note: other receivables exclude other taxes receivable as the analysis is provided for financial assets only.

(d) Liquidity risk

The Group has an excess of current liabilities over current assets of US$74,222 thousand as at 31 December 2013 (2012: excess of current assets over current liabilities US$85,167 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$192,306 thousand for 2013 (2012: US$187,189 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 2013 and 31 December 2012. 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 2013								
Borrowings	21,788	98,302	76,938	148,724	557,354	241,979	1,108	**1,146,193**
Trade and other payables	21,876	539	179	297	–	–	–	**22,891**
	43,664	98,841	77,117	149,021	557,354	241,979	1,108	**1,169,084**
31 December 2012								
Borrowings	22,067	62,084	74,962	155,501	298,049	653,992	–	**1,266,655**
Trade and other payables	35,833	461	129	663	–	–	–	**37,086**
	57,900	62,545	75,091	156,164	298,049	653,992	–	**1,303,741**

Note: statutory liabilities are excluded as the analysis is provided for financial liabilities only.

(e) Capital risk management

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

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

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

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

The rate of borrowings to total capitalisation as at 31 December 2013 and 31 December 2012 are as follows:

	2013 US$'000	2012 US$'000
Total borrowings	**1,014,100**	1,075,108
Total capitalisation	**2,420,599**	2,522,700
Total borrowings to total capitalisation ratio (percentage)	**41.89%**	42.61%

Notes to the consolidated financial statements continued

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 the Company and 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 2013 and 2012. 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

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.

Liabilities carried at amortised cost. The fair value of non-convertible unsecured bonds is based on quoted market prices. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The discount rates used ranged from 7.8% p.a. to 10.3 % p.a. depending on the length and currency of the liability. (Note 24).

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).

ii) Determination of fair values in business combinations

In accordance with acquisition method of accounting for business combinations, the Group allocates the purchase price of acquired entities to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The Group engages third-party valuation experts to assist the management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require significant estimates and assumptions to be made.

Fair values are estimated based on assumptions believed to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain assets acquired and liabilities assumed include but are not limited to: future expected cash flows from transportation contracts, market railcar prices, repair and maintenance costs and discount rates.

Fair values of property, plant and equipment were determined by independent valuers with reference to market prices for rolling stock of similar age.

Fair value of customer relationships was determined by independent valuers using the multi-period excess earnings method within the income approach. Projected cash flows were estimated for the existing five-year customer contract and for the two years thereafter. This is based on the assumption that after the expiry of the original contract the cooperation between the Group and MMK will not terminate since the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the client. Other key assumptions included into cash flow calculations are growth of transportation volumes and prices, railway tariffs, structure of the fleet, costs associated with repairs and maintenance and staff costs.

Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

The goodwill arising on the acquisition of Steeltrans has been allocated to the Russian open wagons/operator's services group of CGUs. Management has assessed that in view of the fact that the acquisition of Steeltrans gives rise to potential synergies benefiting more than a single cash-generating unit, the activities of the individual legal entities of the Group involve intra-group transactions of leasing of rolling stock, and there are also ongoing restructuring of activities between the Group entities, allocation of goodwill to individual cash-generating unit would not be possible on a non-arbitrary basis. Therefore management has assessed that the lowest level which is expected to benefit from synergies arising on the acquisition of Steeltrans and the level at which goodwill is monitored by management is represented by the Russian open-wagons/operator's services group of CGUs.

Notes to the consolidated financial statements continued

iii) Assessment of recoverability of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.

Management has assessed that in view of the fact that the acquisitions of OOO Ferrotrans and OOO Steeltrans give rise to synergies benefiting more than a single cash generating unit, the activities of the individual legal entities of the Group involve intra-group transactions of leasing the rolling stock, and there are also ongoing restructuring of activities between the Group entities, allocation of goodwill to individual cash-generating units would not be possible on a non-arbitrary basis. Therefore, the management has assessed impairment of goodwill at the group of CGUs which represent the lowest level which is expected to benefit from the synergies arising on the acquisition of OOO Ferrotrans and OOO Steeltrans and the level at which goodwill is monitored by management, which is represented by the Russian open wagons/operator's services group of CGUs.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 13). Goodwill has been allocated for impairment testing purposes to Russian open wagons/ operator's services group of CGUs. The Group prepared value-in-use calculations and as a result of such calculations no impairment was identified.

iv) Assessment of recoverability of customer relationships

The Group assesses at each balance sheet date whether there are indications for impairment for the customer relationships with Metalloinvest and MMK Groups. As of 31 December 2013, the Group assessed that despite general deterioration in general industry market conditions, there were no impairment indicators in place for the customer relationship with MMK Group, therefore no impairment testing was performed in relation to this customer relationship. However, impairment indicators were noted in relation to the customer relationship with Metalloinvest Group and as a result, the Group performed an impairment assessment in relation to this customer relationship. The recoverable amount was determined based on value-in-use calculations. These calculations require the use of estimates (Note 13). The impairment testing indicated significant headroom between the recoverable amount and the carrying amount of the customer relationship so that any reasonable possible change in the assumptions used would not trigger any impairment loss.

v) Useful lives of customer relationships

The estimation of the useful lives of customer relationships arising on business combinations and included within intangible assets is a matter of judgment based on expectations of the duration of the relationship with the customers. As of 31 December 2013, the Group carries customers relationships with Metalloinvest and MMK Groups with a carrying amount of US$39,520 thousand and US$129,145 thousand with remaining useful economic lives of 3.5 and 6 years respectively. In assessing the remaining useful life of these customer relationships, management took the view that the cooperation with Metalloinvest and MMK Groups would not terminate after the expiry of the underlying contracts as the relationships are based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the customers. In view of these considerations, management estimated the useful economic lives of the customer relationships with Metalloinvest and MMK Group to be 3.5 years and 6 years respectively.

(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$763,980 thousand for the year ended 31 December 2013 (US$681,681 thousand for the year ended 31 December 2012).

The above include contracts with several customers where under the legal form of these contracts the Group acts as an agent in respect of Russian Railway tariff and services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Group acts as a principal, because the Group's customers do not interact with Russian Railways nor with the operators supplying the engaged fleet but have a contractual relationship with the Group, the Group has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Group bears the credit and price risk and controls the flow of receipts and payments. The Group accounts for full amounts of receipts from customers as revenue and the Russian Railways tariff and the services provided by other operators are included in cost of sales. Had the Russian Railways loaded trip tariff and services provided by other transportation organisations directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by US$920,230 thousand for the year ended 31 December 2013 (US$792,316 thousand for the year ended 31 December 2012).

The Company has contracts with several customers where under the legal form of these contracts the Company acts as an agent in respect of services provided by other transportation organisations and recharges such costs to its customers. Management believes that despite the legal form of the contracts the substance of the relationship with the customers is such that the Company acts as a principal, because the Company's customers do not interact with operators supplying the engaged fleet but have a contractual relationship with the Company, the Company has discretion in selecting suppliers and decides on type of rolling stock to be used in transportation (owned or engaged), the Company bears the credit and price risk and controls the flow of receipts and payments. The Company accounts for full amounts of receipts from customers as revenue and the services provided by other operators are included in cost of sales. Had the services provided by other transportation organisations directly attributable to such contracts been excluded from revenues and cost of sales, both would have decreased by US$42,798 thousand for the year ended 31 December 2013 (US$ 61,423 thousand for the year ended 31 December 2012).

ii) Determination of the acquisition date in business combinations and acquisition of non-controlling interest

The Group determines the acquisition date as the date on which the Group obtains control of the acquiree. On 18 December 2012, the Company has entered into agreement for the acquisition of 100 per cent interest in OOO MMK-Trans. Such agreement specified certain conditions that had to be met before the completion date, such as receipt of approvals for the acquisition from the regulatory authorities. The transaction was completed on 12 February 2013 and 100 per cent interest in OOO MMK-Trans was transferred to the Company on that date. The Group considers the conditions specified in the agreement as substantive and not merely procedural and as such the acquisition date was determined as 12 February 2013 when all such conditions were satisfied, the share in OOO MMK-Trans was transferred to the Company and the Group obtained control of the acquiree.

On 30 November 2013, the Group entered into a share purchase agreement to acquire 52.5% economic interest in Amalfico Holdings Limited which in turns held 97% of ZAO Ural Wagonrepair Company. The agreement was conditional on the Group obtaining approval of the transaction from the Federal Antimonopoly Service of the Russian Federation and Anti-Monopoly Committee of Ukraine which were obtained by 24 January 2014. The Group considered the conditions specified in the agreement as non-substantive and merely procedural in view of the size of ZAO Ural Wagonrepair Company and the fact that the Group was not engaged in any wagon repair activities prior to this acquisition. Therefore, the transaction was accounted for on the date of the share purchase agreement and was therefore reflected in these consolidated financial statements. The Group was already consolidating Amalfico Holding Limited and ZAO Ural Wagonrepair Company pursuant to a currently exercisable option which had been in place since the acquisition of OOO MMK-Trans, therefore, the acquisition of the 52.5% stake in Amalfico Holdings Limited was accounted for as an acquisition of non-controlling interest taking place on 30 November 2013.

iii) Intention for the distribution of dividends by subsidiaries

Withholding tax at the rate of 5% is applied to the dividends distributed by the Russian subsidiaries of the Group to the Company. In case the dividends are distributed by the Estonian subsidiaries the tax of 21% will be applied to such distributions. Recognition of the provisions for such taxes by the Group is based on the management's intention for future dividend distribution by each respective subsidiary. Deferred income tax liabilities of US$62,739 thousand (2012: US$60,143 thousand) have not been recognised for the withholding taxes that would be payable in case unremitted earnings of certain subsidiaries are distributed to the Company in the form of dividends as it is the current intention of the management of the Group that such amounts are reinvested. Unremitted earnings on which no deferred tax liability was recognised totalled US$494,525 thousand as at 31 December 2013 (2012: US$553,778 thousand).

Notes to the consolidated financial statements continued

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 less services provided by other transportation organisations. Further, the Board receives information in respect of 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, customer relationships and goodwill. Unallocated assets comprise all the assets of the Group except for rolling stock, customer relationship and goodwill, 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 and additions to customer relationships and goodwill arising on business combinations.

The Group does not have transactions between different business segments.

	Open wagons US$'000	Tank cars US$'000	All other segments US$'000	Total US$'000
Year ended 31 December 2013				
Total revenue – operator's services	1,138,845	1,019,719	37,993	2,196,557
Total revenue – operating lease	4,203	94,698	19,644	118,545
Revenue (from external customers)	1,143,048	1,114,417	57,637	2,315,102
less Infrastructure and locomotive tariffs – loaded trips	(346,032)	(402,139)	(15,809)	(763,980)
less Services provided by other transportation organisations	(146,315)	(9,852)	(83)	(156,250)
Adjusted revenue for reportable segments	650,701	702,426	41,745	1,394,872
Depreciation and amortisation	(145,855)	(28,960)	(11,373)	(186,188)
Additions to non-current assets (included in reportable segment assets)	315,839[1]	26	44,331	360,196
Reportable segment assets	1,846,960[2]	524,586	73,571	2,445,117

[1] Includes US$211,688 thousand of intangible assets representing goodwill and customer relationships.
[2] Includes US$346,735 thousand of intangible assets representing goodwill and customer relationships.

	Open wagons US$'000	Tank cars US$'000	All other segments US$'000	Total US$'000
Year ended 31 December 2012				
Total revenue – operator's services	924,187	1,026,800	18,341	1,969,328
Total revenue – operating lease	41,827	88,190	5,783	135,800
Revenue (from external customers)	966,014	1,114,990	24,124	2,105,128
less Infrastructure and locomotive tariffs – loaded trips	(148,848)	(530,804)	(2,029)	(681,681)
less Services provided by other transportation organisations	(110,635)	–	–	(110,635)
Adjusted revenue for reportable segments	706,531	584,186	22,095	1,312,812
Depreciation and amortisation	(75,515)	(27,820)	(3,259)	(106,594)
Additions to non-current assets (included in reportable segment assets)	1,261,716[1]	147,611	18,720	1,428,047
Reportable segment assets	1,838,421[2]	556,218	46,350	2,440,989

[1] Includes US$205,668 thousand of intangible assets representing goodwill and customer relationships.
[2] Includes US$197,033 thousand of intangible assets representing goodwill and customer relationships.

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

	2013 US$'000	2012 US$'000
Adjusted revenue for reportable segments	**1,394,872**	1,312,812
Other revenues	**12,447**	9,167
Total adjusted revenue	**1,407,319**	1,321,979
Cost of sales (excl. Infrastructure and locomotive tariffs - loaded trips, services provided by other transportation organisations, impairments and depreciation of property, plant and equipment)	**(645,046)**	(545,871)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(135,656)**	(126,784)
Depreciation	**(164,389)**	(113,043)
Impairment charge	**(11,666)**	(948)
Other gains – net	**1,164**	1,153
Operating profit	**451,726**	536,486
Finance income	**10,287**	–
Finance costs	**(120,056)**	(124,545)
Share of profit of associates	**213**	339
Profit before income tax	**342,170**	412,280

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

	2013		2012	
	Assets US$'000	Liabilities US$'000	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	**2,445,117**		2,440,989	
Unallocated:				
Deferred tax	**–**	**143,889**	–	125,074
Income tax assets/liabilities	**7,254**	**445**	3,515	8,207
Investment in associates	**2,552**	**–**	2,230	–
Inventories	**17,994**	**–**	13,675	–
Intangible assets	**20**	**–**	11	–
Current borrowings	**–**	**276,971**	–	237,933
Non-current borrowings	**–**	**737,129**	–	837,175
Property, plant and equipment	**82,043**	**–**	37,912	–
Receivables	**197,494**	**–**	263,295	–
Payables	**–**	**116,273**	–	135,568
Restricted cash	**–**	**–**	10,000	–
Cash and cash equivalents	**104,103**	**–**	178,190	–
Total	**2,856,577**	**1,274,707**	2,949,817	1,343,957

Geographic information

Revenues from external customers

	2013 US$'000	2012 US$'000
Revenue		
Russia	**2,249,018**	2,023,852
Estonia	**47,432**	56,127
Finland	**27,766**	22,850
Ukraine	**3,333**	11,466
	2,327,549	2,114,295

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, included within the revenue generated in Russia, accounted for greater than 10% of the Group's total revenues:

	2013		2012	
	US$'000	% revenue	US$'000	% revenue
Revenue				
Customer A – tank cars segment	**508,209**	**22**	542,191	26
Customer B – open wagons segment	**324,496**	**14**	–	–

Notes to the consolidated financial statements continued

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

	2013 US$'000	2012 US$'000
Non-current assets		
Russia	**2,221,542**	2,171,983
Estonia	**266,317**	263,909
Ukraine	**44,951**	47,024
Cyprus	**73**	26
	2,532,883	2,482,942

Analysis of revenue by category

	2013 US$'000	2012 US$'000
Railway transportation – operators services (tariff borne by the Group)	**1,541,608**	1,208,463
Railway transportation – operators services (tariff borne by the client)	**654,949**	760,865
Railway transportation – freight forwarding	**1,950**	6,895
Operating lease of rolling stock	**118,545**	135,800
Other	**10,497**	2,272
Total revenue	**2,327,549**	2,114,295

Note: Revenue from railway transportation – operators services (tariff borne by the Group) includes infrastructure and locomotive tariffs for loaded trips for the year ended 31 December 2013 amounting to US$763,980 thousand (for the year ended 31 December 2012: US$681,681 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to US$156,250 thousand (2012: US$110,635 thousand).

6. EXPENSES BY NATURE

	2013 US$'000	2012 US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**763,980**	681,681
Empty run trips and other tariffs	**339,381**	295,889
Services provided by other transportation organisations	**156,250**	110,635
Operating lease rentals – rolling stock	**40,149**	61,618
Employee benefit expense	**27,788**	18,948
Repairs and maintenance	**130,545**	104,051
Depreciation of property, plant and equipment	**162,634**	112,028
Amortisation of intangible assets	**31,930**	7,730
Fuel and spare parts – locomotives	**37,996**	31,518
Engagement of locomotive crews	**14,104**	12,169
Loss on sale of property, plant and equipment	**5,914**	2,072
Other expenses	**17,239**	11,876
	1,727,910	1,450,215

	2013 US$'000	2012 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**1,755**	1,015
Amortisation of intangible assets	**5**	3
(Gain)/loss on sale of property, plant and equipment	**(58)**	48
Employee benefit expense	**68,301**	63,137
Impairment charge of receivables	**11,666**	948
Operating lease rental – office	**8,361**	6,614
Auditors' remuneration	**1,964**	1,937
Legal, consulting and other professional fees	**5,094**	6,955
Advertising and promotion	**820**	807
Communication costs	**1,622**	1,153
Information services	**2,004**	1,664
Taxes (other than income tax and value added taxes)	**33,353**	28,543
Other expenses	**14,190**	15,923
	149,077	128,747

	2013 US$'000	2012 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**164,389**	113,043
Amortisation of intangible assets (Note 13)	**31,935**	7,733
Loss on sale of property, plant and equipment (Note 12)	**5,856**	2,120
Employee benefit expense (Note 8)	**96,089**	82,085
Impairment charge for receivables	**11,666**	948
Operating lease rentals – rolling stock	**40,149**	61,618
Operating lease rentals – office	**8,361**	6,614
Repairs and maintenance	**130,545**	104,051
Fuel and spare parts – locomotives	**37,996**	31,518
Engagement of locomotive crews	**14,104**	12,169
Infrastructure and locomotive tariffs:		
Loaded trips	**763,980**	681,681
Empty run trips other tariffs	**339,381**	295,889
Services provided by other transportation organisations	**156,250**	110,635
Auditors' remuneration	**1,964**	1,937
Legal, consulting and other professional fees	**5,094**	6,955
Advertising and promotion	**820**	807
Communication costs	**1,622**	1,153
Information services	**2,004**	1,664
Taxes (other than income tax and value added taxes)	**33,353**	28,543
Other expenses	**31,429**	27,799
Total cost of sales, selling and marketing costs and administrative expenses	**1,876,987**	1,578,962

Note: The Cypriot auditors' remuneration stated above include fees of US$492 thousand (2012: US$609 thousand) for audit services charged by the Group'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.

Legal, consulting and other professional fees include US$24 thousand for the year 2013 (US$0 thousand for the year 2012) in fees paid to the Company's statutory auditor for non-audit services.

7. OTHER GAINS – NET

	2013 US$'000	2012 US$'000
Other gains	**2,354**	3,574
Other losses	**(1,245)**	(912)
Net foreign exchange gains / (loses) (Note 11)	**55**	(1,509)
Total other gains – net	**1,164**	1,153

Notes to the consolidated financial statements continued

8. EMPLOYEE BENEFIT EXPENSE

	2013 US$'000	2012 US$'000
Wages and salaries (including restructuring costs for 2013 US$678 thousand)	**49,785**	37,598
Bonuses	**32,404**	33,555
Social insurance costs (including restructuring costs for 2013 US$127 thousand)	**13,900**	10,932
Total employee benefit expense	**96,089**	82,085

9. FINANCE INCOME AND COSTS

	2013 US$'000	2012 US$'000
Interest expense:		
Borrowings from third parties	**(2,189)**	–
Bank borrowings	**(75,927)**	(61,758)
Non-convertible bond	**(36,206)**	(32,551)
Finance leases	**(2,057)**	(2,873)
Other finance costs	**(5,861)**	(808)
Total interest expense	**(122,240)**	(97,990)
Net foreign exchange transaction gains/(losses) on borrowings and other liabilities (Note 11)	**2,184**	(26,555)
Finance costs	**(120,056)**	(124,545)
Interest income:		
Loans receivables from third parties	**32**	–
Bank balances	**924**	2,309
Short term bank deposits	**2,606**	3,334
Total interest income	**3,562**	5,643
Net foreign exchange transaction gains/(losses) on cash and cash equivalents and other monetary assets (Note 11)	**6,725**	(5,643)
Finance income	**10,287**	–
Net finance costs	**(109,769)**	(124,545)

10. INCOME TAX EXPENSE

	2013 US$'000	2012 US$'000
Current tax:		
Corporation tax	**84,921**	85,200
Withholding tax on dividends for which no deferred tax was recognised	**3,656**	–
Defence contribution	**17**	–
Total current tax	**88,594**	85,200
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**1,938**	4,493
Impact of change in intention for distribution of profits by subsidiary	**–**	11,059
Impact of change in the Ukrainian tax rate	**–**	(50)
Total deferred tax	**1,938**	15,502
Income tax expense	**90,532**	100,702

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

	2013 US$'000	2012 US$'000
Profit before tax	**342,170**	412,280
Tax calculated at domestic tax rates applicable to profits in the respective countries	**64,390**	82,031
Tax effects of:		
Expenses not deductible for tax purposes	**4,331**	1,414
Allowances and income not subject to tax	**(1,642)**	(13)
Tax effect of revaluation of deferred tax at current tax rates/utilisation of previously unrecognised tax losses	**117**	–
Tax effect of tax losses for which no deferred tax asset was recognised	**3,537**	–
Re-measurement of deferred tax liability – change in the Ukrainian tax rate	**–**	(50)
Withholding tax on dividends for which no deferred tax was recognised	**3,656**	–
Derecognition of deferred tax asset previously recognised	**1,823**	–
Estonian income tax charge[2]	**2,113**	–
Dividend withholding tax provision (Note 25)[1]	**12,190**	17,288
Other	**17**	32
Tax charge	**90,532**	100,702

[1] Included within 'Dividend withholding tax provision' in 2012 is deferred tax provision of US$11,059 thousand due to the change in intention for distribution of profits of a Russian subsidiary of the Company (the applicable dividend tax rate is 5%) as it was no longer probable that dividend distributions would only be made from future profits of that subsidiary. This resulted in the recognition of one-off deferred tax provision in the amount of US$4,214 thousand (relates to the profits earned in the prior periods) and a further deferred tax provision of US$6,845 thousand for the 2012 profits.

[2] Estonian tax law calls for profits to be taxed at the time of distribution and not during the year in which they are incurred

The weighted average applicable tax rate was 18.8% in 2013 (2012: 19.9%) and the effective tax rate was 26,5% in 2013 (2012: 24.4%). The increase in the effective tax rate is caused by the increased proportion of the Group's profits arising from the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate on profits after tax together with the income tax incurred by the Estonian subsidiaries, as a result of distribution of dividends to the Company.

The Company is subject to income tax on taxable profits at the rate of 10% up to 31 December 2012, and at the rate of 12.5% as from 1 January 2013. As from tax year 2012 brought forward losses of only five years may be utilised. Up to 31 December 2008, under certain conditions interest may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

For Russian subsidiaries, the annual profit is taxed at 20%. 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. Dividend withholding tax provision is recognised in the respective periods for the withholding taxes that would be payable by subsidiaries where there is an intention that earnings will be distributed to the Company in the form of dividends.

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% (until 31 December 2012: 21%) of net dividend paid. The tax rate will be reduced to 20% in 2015. Therefore, the applicable income tax rate for Estonian subsidiaries is zero per cent as the Group currently has no intention to distribute dividends from the Estonian subsidiaries. During the year, the Estonian subsidiary incurred a charge of US$2,113 thousand (2012: US$nil) as a result of distribution of dividends.

Notes to the consolidated financial statements continued

For the subsidiary in Ukraine the annual profit was taxed at a tax rate 25% until 31 March 2011; decreased to 23% until 31 December 2011 and further decreased to 21% thereafter. As of 1 January 2013 the tax rate reduced to 19% and is reduced to 18% from 1 January 2014 and to 16% from January 2016.

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 GAINS/(LOSSES)

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

	2013 US$'000	2012 US$'000
Net finance costs (Note 9)	**8,909**	(32,198)
Other (losses)/gains – net (Note 7)	**55**	(1,509)
	8,964	(33,707)

12. PROPERTY, PLANT AND EQUIPMENT

	Rolling stock US$'000	Land and buildings US$'000	Motor vehicles US$'000	Other US$'000	Total US$'000
At 1 January 2012					
Cost	1,415,495	2,480	3,471	5,463	1,426,909
Accumulated depreciation	(314,929)	(860)	(1,865)	(3,084)	(320,738)
Net book amount	1,100,566	1,620	1,606	2,379	1,106,171
Year ended 31 December 2012					
Opening net book amount	1,100,566	1,620	1,606	2,379	1,106,171
Additions	809,729	22	594	664	811,009
Acquired through business combinations (Note 15)	431,478	–	253	327	432,058
Disposals	(2,740)	–	(213)	(56)	(3,009)
Depreciation charge	(111,225)	(192)	(549)	(1,077)	(113,043)
Currency translation differences	48,407	81	82	112	48,682
Closing net book amount	2,276,215	1,531	1,773	2,349	2,281,868
At 31 December 2012					
Cost	2,722,066	2,626	4,048	6,676	2,735,416
Accumulated depreciation	(445,851)	(1,095)	(2,275)	(4,327)	(453,548)
Net book amount	2,276,215	1,531	1,773	2,349	2,281,868

	Rolling stock US$'000	Land and buildings US$'000	Motor vehicles US$'000	Other US$'000	Total US$'000
At 1 January 2013					
Cost	2,722,066	2,626	4,048	6,676	2,735,416
Accumulated depreciation	(445,851)	(1,095)	(2,275)	(4,327)	(453,548)
Net book amount	2,276,215	1,531	1,773	2,349	2,281,868
Year ended 31 December 2013					
Opening net book amount	2,276,215	1,531	1,773	2,349	2,281,868
Additions	35,495	202	1,427	3,121	40,245
Acquired through business combinations (Note 15)	152,091	7,123	664	15,996	175,874
Disposals	(11,012)	–	(196)	(30)	(11,238)
Depreciation charge	(160,907)	(242)	(819)	(2,421)	(164,389)
Currency translation differences	(139,828)	(633)	(168)	(1,306)	(141,935)
Closing net book amount	2,152,054	7,981	2,681	17,709	2,180,425
At 31 December 2013					
Cost	2,697,577	9,276	5,154	23,558	2,735,565
Accumulated depreciation	(545,523)	(1,295)	(2,473)	(5,849)	(555,140)
Net book amount	2,152,054	7,981	2,681	17,709	2,180,425

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

	2013 US$'000	2012 US$'000
Net book amount	**11,238**	3,009
Loss on sale of property, plant and equipment (Note 6)	**(5,856)**	(2,120)
Consideration from sale of property, plant and equipment	**5,382**	889

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

	2013 US$'000	2012 US$'000
Cash consideration received within year	**5,410**	900
Movement in advances received in accounts payable for sales of property, plant and equipment	**(28)**	(11)
	5,382	889

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

	2013 US$'000	2012 US$'000
Cost – capitalised finance leases	**123,815**	147,331
Accumulated depreciation	**(18,539)**	(19,948)
	105,276	127,383

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

	2013 US$'000	2012 US$'000
Rolling stock	**105,206**	127,272
Motor vehicles	**70**	111
	105,276	127,383

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):

	2013 US$'000	2012 US$'000
Rolling stock	**795,554**	625,375

Depreciation expense of US$162,634 thousand in 2013 (2012: US$112,028 thousand) have been charged to "cost of sales" and US$1,755 thousand in 2013 (2012: US$1,015 thousand) have been charged to administrative expenses.

Notes to the consolidated financial statements continued

13. INTANGIBLE ASSETS

	Goodwill US$'000	Computer software US$'000	Customer relationships US$'000	Total US$'000
At 1 January 2012				
Cost	–	490	–	490
Accumulated amortisation and impairment	–	(340)	–	(340)
Net book amount	–	150	–	150
Year ended 31 December 2012				
Opening net book amount	–	150	–	150
Acquired through business combinations (Note 15)	142,328	14	63,340	205,682
Amortisation charge (Note 6)	–	(158)	(7,575)	(7,733)
Currency translation differences	(504)	5	(556)	(1,055)
Closing net book amount	141,824	11	55,209	197,044
At 31 December 2012				
Cost	141,824	533	63,117	205,474
Accumulated amortisation and impairment	–	(522)	(7,908)	(8,430)
Net book amount	141,824	11	55,209	197,044
Year ended 31 December 2013				
Opening net book amount	141,824	11	55,209	197,044
Acquired through business combinations (Note 15)	50,417	42	161,271	211,730
Amortisation charge (Note 6)	–	(30)	(31,905)	(31,935)
Currency translation differences	(14,171)	(3)	(15,910)	(30,084)
Closing net book amount	178,070	20	168,665	346,755
At 31 December 2013				
Cost	178,070	533	207,179	385,782
Accumulated amortisation and impairment	–	(513)	(38,514)	(39,027)
Net book amount	178,070	20	168,665	346,755

Amortisation of US$31,930 thousand (2012: US$7,730 thousand) is included in 'cost of sales' in the income statement; US$5 thousand (2012: US$3 thousand) in 'administrative expenses'.

Year ended 31 December 2012

In May 2012, the Group completed the acquisition of OOO Ferrotrans (formerly Metalloinvesttrans) (note 15). The goodwill of US$142,328 thousand arose on this acquisition from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars and detailed understanding of transportation requirements of metals and mining companies.

As a part of the acquisition the Group have agreed a three-year transportation contract. In accordance with this contract, the Group will provide rail freight transportation and logistics services to Metalloinvest, handling 100% of all its rail transportation cargo volumes in year one based on agreed pricing terms and at least 60% in the following two years. The Group has recognised an intangible asset 'customer relationships' relating to this arrangement in the amount of US$63,340 thousand, which is amortised over 5 years. Amortisation period is based on the assumption that after the expiry of the original contract the cooperation between the Group and Metalloinvest will not terminate since the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the client. As at 31 December 2012 the remaining useful live for customer relationships was estimated at 4.5 years. Goodwill in the amount of US$141,824 thousand as of 31 December 2012 is allocated to Russian open wagons/operator's services group of cash generating units.

Year ended 31 December 2013

In February 2013 the Group completed the acquisition of 100 per cent of the share capital of OOO Steeltrans (formerly MMK-Trans), the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. At the time of the acquisition of OOO Steeltrans, the Group also entered into an option that was currently exerciseable to obtain control of Amalfico Holdings Limited, a holding company owning 97% of the share capital of ZAO Ural Wagonrepair Company (UWC), a company offering railcar repair services and as a result obtained control over UWC. The goodwill of US$44,278 thousand which arose from the acquisition of Steeltrans results from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars as well as access to MMK cargo base enabling the Group to develop a more efficient gondola car logistics configurations with low empty runs. The goodwill of US$6,139 thousand from the acquisition of UWC arises due to the ability of extracting potential cost savings on repair and maintenance services. Total goodwill arising from the acquisition of OOO Steeltrans and UWC amounting to US$50,417 thousand is allocated to Russian open wagons/operator's services group of cash generating units.

As part of the acquisition of OOO Steeltrans, the Group entered into a five-year contract guaranteed by MMK Group to supply it with rail transportation services for at least 70% of MMK's rail cargo flows. The Group has recognised an intangible asset 'customer relationships' relating to this arrangement in the amount of US$161,271 thousand, which is amortised over 7 years. Amortisation period is based on the assumption that after the expiry of the original contract the cooperation between the Group and MMK Group will not terminate since the relationship is based on market conditions and the rolling stock of the Group and its expertise best meet the transportation requirements of the client. As at 31 December 2013 the remaining useful live of the customer relationship with MMK Group was estimated at 6 years.

As of 31 December 2013, the total carrying amount of goodwill in the amount of US$178,070 thousand is allocated to Russian open wagons/operator's services group of cash generating units. As of the same date, customer relationships with a carrying amount of US$39,520 thousand and US$129,145 thousand have remaining useful economic lives of 3.5 and 6 years respectively.

Impairment assessment of customer relationships

The Group assesses at each balance sheet date whether there are indications for impairment for the customer relationships with Metalloinvest and MMK Group. As of 31 December 2013, the Group assessed that despite general deterioration in general industry market conditions, there were no impairment indicators in place for the customer relationship with MMK Group with a carrying amount of US$129,145 thousand, therefore no impairment testing was performed in relation to this customer relationship.

However, impairment indicators were noted in relation to the customer relationship with Metalloinvest Group and as a result, the Group performed an impairment assessment in relation to this customer relationship. The recoverable amount was determined based on value-in-use calculations. These calculations require the use of estimates. The impairment testing indicated significant excess of the recoverable amount over the carrying amount of the customer relationship so that any reasonable possible change in the assumptions used would not trigger any impairment loss.

For projections prepared for customer relationship with Metalloinvest Group are based on 5-year post-tax cash flow projections and the discount rate of 15.06% have been applied for years 2014-2016 and 17.06% for years 2017-2018. The key assumptions are transportation volumes and prices per trip. The projected volumes reflect past experience and management's estimates. The transportation prices are estimated in accordance with the past performance of the Group and management's expectations of market developments.

Impairment test for goodwill

Management reviews the business performance based on types of rail cars and types of business. It has identified open wagons and rail tanks as the main types of rail cars and operator's services and operating lease as the main business activities of the Group. Goodwill is monitored by the management at the operating segment level and currently goodwill is allocated to the Russian open wagons/operator's services group of cash generating units.

The recoverable amount of this group of CGUs is determined based on value in use calculations (2012: value in use). These calculations are based on 7-year post-tax cash flow projections (2012: 5–year post-tax cash flow projections) and all the assumptions in relation to growth rates are determined by reference to management's past experience and industry forecasts. Cash flows beyond the seven-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the operator's business in which the group of CGUs operates.

For projections prepared for Russian open wagon/operator's services group of CGUs, terminal growth rate of 3% (2012: 3%) and the discount rate of 14.0% (2012: 17.82%) have been applied. The key assumptions are transportation volumes and prices per trip. The projected volumes reflect past experience and management's estimates. The transportation prices are estimated in accordance with the past performance of the Group and management's expectations of market development.

The terminal growth rate used is consistent with the forecasts included in industry reports. The discount rate used is post-tax and reflect specific risks relating to the relevant group of CGUs.

The recoverable amount of Russian open wagon/operator's services group of CGUs calculated based on value-in-use exceeds its carrying amount as of 31 December 2013 and 31 December 2012. Management believes that any reasonably possible change in the key assumptions on which these units' recoverable amounts is based would not cause carrying amounts of these units to exceed their recoverable amounts as of 31 December 2013 or 31 December 2012.

Notes to the consolidated financial statements continued

14. INVESTMENT IN ASSOCIATE

	2013 US$'000	2012 US$'000
At beginning of year	**2,230**	1,845
Share of profit after tax	**213**	339
Foreign exchange difference gain	**109**	46
At end of year	**2,552**	2,230

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$'000	Profit US$'000	% Interest held
2013						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	8,299	4,664	9,184	213	25.27
2012						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	7,878	4,545	9,131	339	25.27

The fair value of the investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2013 is US$1,330 thousand active (31 December 2012: US$1,906 thousand). However the market for these shares is not considered as active.

15. BUSINESS COMBINATION

(a) Acquisition of OOO Steeltrans

On 12 February 2013 the Group completed the acquisition of 100 per cent of the share capital of OOO Steeltrans (formerly MMK-Trans), the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. The total consideration was US$251,317 thousand. Steeltrans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. As part of the transaction, Globaltrans entered into a five-year contract guaranteed by MMK Group to supply it with rail transportation services for at least 70% of MMK's rail cargo flows. As a result of the acquisition Globaltrans expects to further enhance its position as a leading independent private freight rail group in Russia.

At the time of the acquisition of OOO Steeltrans, the Group has entered into the call option agreement for the acquisition of 52.5% of the share capital of Amalfico Holdings Limited, a holding company owning 97% of the share capital of ZAO Ural Wagonrepair Company (UWC), a company offering railcar repair services. Effective interest of 46.1 per cent of UWC is controlled by OOO Steeltrans and formed part of the acquisition. The option was exercisable after the completion of the acquisition of OOO Steeltrans and was expiring on 12 February 2014. Considering the potential voting rights, the currently exercisable call option provided the Group with the power to govern the financial and operating policies of UWC at the time that the Group entered into this call option, in February 2013 and, as a consequence, UWC is determined to be a subsidiary of the Company as from February 2013.

The goodwill of US$44,278 thousand which arises from the acquisition of Steeltrans results from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars as well as access to MMK cargo base enabling the Group to develop a more efficient gondola car logistics configurations with low empty runs. The goodwill of US$6,139 thousand from the acquisition of UWC arises due to the ability of extracting potential cost savings on repair and maintenance services.

The following table summarises the consideration paid for OOO Steeltrans and the amounts of the assets acquired and liabilities assumed (including the assets and liabilities of UWC) recognised at the acquisition date.

	12-Feb-2013 US$'000
Cash consideration	251,317
Total consideration	**251,317**
Fair value of recognised amounts of identifiable assets and liabilities assumed:	
Cash and cash equivalents	38,318
Property, plant and equipment (Note 12)	175,874
Intangible assets (Note 13)	161,313
Inventories	2,694
Trade and other receivables	47,918
Deferred tax assets	946
Borrowings	(145,050)
Trade and other payables	(40,659)
Deferred tax liabilities	(47,639)
Total identifiable net assets	**193,714**
Non-controlling interest	**7,185**
Goodwill	**50,417**
	251,317

Purchase consideration in cash:

	12-Feb-2012 US$'000
Cash consideration	251,317
Release of restricted cash paid in 2012 and held on the escrow account	(10,000)
Cash and cash equivalents acquired	(38,318)
Net cash outflow from business combination	202,999

OOO Steeltrans and UWC are parties to a loan agreement. The fair value of the amount outstanding in accordance with such agreement from UWC to Steeltrans as of the acquisition date is US$19,062 thousand. Such amount is not included in the table above as it constitutes a pre-existing relationship is effectively settled at the time of acquisition. Acquisition-related costs of US$1,147 thousand have been charged to administrative expenses in the consolidated income statement for the year.

The fair value of trade and other receivables is US$47,918 thousand and includes trade receivables with a fair value of US$19,528 thousand, other receivables with a fair value of US$19,072 thousand, prepayments for the transportation services with a fair value of US$7,924 thousand, loans receivables with the fair value of US$911 thousand and VAT recoverable with a fair value of US$483 thousand.

The gross contractual amounts for trade receivables and other receivables due is US$38,640 thousand of which US$40 thousand is expected to be uncollectible.

The Group has also recognised deferred tax provision on unremitted earnings of OOO Steeltrans as at the date of acquisition of US$1,346 thousand.

The non-controlling interest has been recognised as a proportion of net assets acquired.

The revenue included in the consolidated income statement from 12 February 2013 to 31 December 2013 contributed by OOO Steeltrans and UWC was US$248,315 thousand. OOO Steeltrans and UWC also contributed profit of US$16,146 thousand respectively over the same period.

Had OOO Steeltrans and UWC been consolidated from 1 January 2013, the consolidated income statement for the year ended 31 December 2013 would show pro-forma revenue of US$2,348,244 thousand and pro-forma profit of US$255,706 thousand. Estimates of the contribution of revenue and profit to the Group are based on unaudited information.

This information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisition actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

Notes to the consolidated financial statements continued

(b) Acquisition of OOO Ferrotrans

On 15 May 2012, the group has completed the purchase of 100% of the share capital of OOO Ferrotrans ("FT") (formerly OOO Metalloinvesttrans), the freight rail transportation operator. The core business of FT is to manage rail logistics of Metalloinvest, a leading global iron ore and hot briquetted iron producer based in Russia, using its owned and leased-in railcar fleet as well as the fleet engaged from third-party operators.

As a result of the acquisition Globaltrans expects to further enhance its position as a leading independent private freight rail group in Russia.

As a part of the transaction Globaltrans and Metalloinvest have agreed a three-year service contract. In accordance with this contract, Globaltrans will provide rail freight transportation and logistics services to Metalloinvest, handling 100% of all its rail transportation cargo volumes in year one based on agreed pricing terms and at least 60% in the following two years based on a "right of first refusal" principle.

FT has been acquired through OJSC New Forwarding Company, a 100% subsidiary of the Company, and has been financed through the use of the Group's own funds and from credit facilities. On 1 November 2012, the interest in the share capital of FT was transferred from NFC to the Company.

The following table summarises the consideration paid for FT and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	15-May-2012 US$'000
Cash consideration	573,471
Total consideration	**573,471**
Fair value of recognised amounts of identifiable assets and liabilities assumed:	
Cash and cash equivalents	583
Property, plant and equipment (Note 12)	432,058
Intangible assets (Note 13)	63,354
Inventories	947
Trade and other receivables	70,832
Current income tax assets	1,154
Trade and other payables	(56,908)
Deferred tax liabilities (Note 25)	(80,877)
Total identifiable net assets	431,143
Goodwill	142,328
	573,471

Purchase consideration in cash:

	15-May-2012 US$'000
Cash paid	573,471
Cash and cash equivalents acquired	(583)
Net cash outflow from business combination	572,888

The goodwill of US$142,328 thousand arises from a number of factors such as the ability of extracting operational efficiencies due to extensive expertise of the management of the Group in the operation of railcars and detailed understanding of transportation requirements of metals and mining companies.

Acquisition-related costs of US$1,611 thousand have been charged to administrative expenses in the consolidated income statement for the period.

The fair value of trade and other receivables is US$70,832 thousand and includes trade receivables with a fair value of US$10,168 thousand, other receivables with a fair value of US$10,360 thousand, prepayments for the transportation services with a fair value of US$35,007 thousand and VAT recoverable with a fair value of US$15,297 thousand. The gross contractual amounts for trade receivables and other receivables due is US$10,590 thousand and US$10,802 thousand respectively of which US$422 thousand and US$442 thousand respectively is expected to be uncollectible.

The revenue included in the consolidated income statement from 15 May 2012 to 31 December 2012 contributed by FT was US$410,443 thousand. FT also contributed profit of US$32,421 thousand over the same period.

Had FT been consolidated from 1 January 2012, the consolidated income statement for the year ended 31 December 2012 would show pro-forma revenue of US$2,369,468 thousand and pro-forma profit of US$333,417 thousand. Estimates of the contribution of revenue and profit to the Group are based on unaudited information.

This information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisition actually been made at the beginning of the period presented, or indicative of the future results of the combined Group.

Final consideration payable by the Group for the acquisition of OOO Ferrotrans completed in May 2012, was finally determined in October 2012 based on the actual amounts of net debt and deviation of working capital of Ferrotrans compared to normalised values. The Group has also recognised deferred tax provision on unremitted earnings of OOO Ferrotrans as at the date of acquisition of US$4,975 thousand. These resulted in an adjustment increasing preliminary consideration by US$6,677 thousand and goodwill arising on such acquisition by US$11,652 thousand. The adjustment was treated as measurement period adjustment by the Group in the second half of 2012.

16. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interests in subsidiaries

On 30 November 2013, the Group entered into a share purchase agreement to acquire 52.5% economic interest in Amalfico Holdings Limited which in turn held 97% of ZAO Ural Wagonrepair Company (UWC). The agreement was conditional on the Group obtaining approval of the transaction from the Federal Antimonopoly Service of the Russian Federation and Anti-Monopoly Committee of Ukraine which were obtained by 24 January 2014. The Group considered the conditions specified in the agreement as non-substantive and merely procedural in view of the size of ZAO Ural Wagonrepair Company and the fact that the Group was not engaged in any wagon repair activities prior to this acquisition. Therefore, the transaction was accounted for on the date of the share purchase agreement and was therefore reflected in these consolidated financial statements. The Group was already consolidating Amalfico Holding Limited and ZAO Ural Wagonrepair Company pursuant to a currently exercisable option which had been in place since the acquisition of OOO MMK-Trans, therefore, the acquisition of the 52.5% stake in Amalfico Holdings Limited was accounted for as an acquisition of non-controlling interest taking place on 30 November 2013.

The acquisition of non-controlling interest in UWC was made for US$1. The difference between the consideration and the carrying amount of non-controlling interest in UWC amounting to (US$9.007 thousand) was transferred to retained earnings.

As part of the share purchase agreement, the Group undertook to take all necessary actions in order for UWC to repay borrowings to an entity related to TIHL, amounting to US$20,823 thousand by 31 March 2014.

17. FINANCIAL INSTRUMENTS BY CATEGORY

	2013		2012	
	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	**80,466**	**80,466**	91,360	91,360
Cash and cash equivalents	**104,103**	**104,103**	178,190	178,190
Restricted cash	**–**	**–**	10,000	10,000
Total	**184,569**	**184,569**	279,550	279,550

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

Notes to the consolidated financial statements continued

	2013		2012	
	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	**1,014,100**	**1,014,100**	1,075,108	1,075,108
Trade and other payables	**22,891**	**22,891**	37,086	37,086
Total	**1,036,991**	**1,036,991**	1,112,194	1,112,194

Note: trade and other payables do not include advances, statutory liabilities and provisions for employees' benefits.

18. 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:

	2013 US$'000	2012 US$'000
Trade and other receivables Counterparties with external credit rating		
Standard & Poor's[4] (BB+,BBB-)	**53**	10,438
Moody's[3] (Ba2,Ba3)	**22,867**	2,905
Fitch[5] (B3 - BBB)	**412**	–
	23,332	13,343

	2013 US$'000	2012 US$'000
Counterparties without external credit rating		
Group 1	**28,547**	31,985
Group 2	**1,528**	963
	30,075	32,948
Total trade and other receivables	**53,407**	46,291

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	2013 US$'000	2012 US$'000
Moody's[3]	Aaa - A1	**5,246**	49,398
Moody's[3]	Baa1 - B3	**70,687**	107,235
Moody's[3]	Caa3	**1,183**	–
Standard & Poor's[4]	BBB+ - BBB-	**12,366**	27,269
Fitch[5]	BBB+	**14,474**	4,273
Other non-rated banks		**123**	6
Total cash at bank and bank deposits[1][2]		**104,079**	188,181

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

19. TRADE AND OTHER RECEIVABLES

	2013 US$'000	2012 US$'000
Trade receivables – third parties	**88,279**	70,430
Trade receivables – related parties (Note 30)	**161**	16,739
Less: Provision for impairment of trade receivables	**(11,635)**	(655)
Trade receivables – net	**76,805**	86,514
Other receivables	**3,926**	5,618
Other receivables – related parties (Note 30)	**–**	4
Less: Provision for impairment of other receivables	**(1,072)**	(776)
Other receivables – net	**2,854**	4,846
Loans receivables – third parties	**807**	–
Prepayments - related parties (Note 30)	**1,215**	2,773
Prepayments – third parties	**87,513**	84,533
VAT recoverable	**28,300**	84,629
	197,494	263,295

	2013 US$'000	2012 US$'000
Less non-current portion:		
Trade receivables – third parties	**4,067**	–
Less: Provision for impairment of trade receivables	**(344)**	–
Trade receivables – net	**3,723**	–
Loans receivables – third parties	**504**	–
Prepayments for property, plant and equipment	**670**	–
Total non-current portion	**4,897**	–
Current portion	**192,597**	263,295

According to the management's estimates, fair values of trade and other receivables do not materially differ from their carrying amounts as the impact of discounting is not significant.

Receivables amounting to US$53,407 thousand as of 31 December 2013 were fully performing (2012: US$46,291 thousand).

Notes to the consolidated financial statements continued

Receivables of US$27,059 thousand as of 31 December 2013 were past due but not impaired (2012: US$45,069 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:

	2013 US$'000	2012 US$'000
Less than 1 month	**13,215**	29,144
From 1 to 3 months	**7,609**	9,005
From 3 to 6 month	**3,050**	5,141
From 6 months to 1 year	**2,492**	1,687
Over one year	**693**	92
	27,059	45,069

Trade receivables amounting to US$11,635 thousand as of 31 December 2013, were impaired and provided for in full (2012: US$655 thousand). The individually impaired receivables mainly relate to customers for railway services, which are in unexpectedly difficult economic situation. It was assessed that no portion of these receivables is expected to be recovered.

Other receivables amounting to US$1,072 thousand as of 31 December 2013, were impaired and provided for in full (2012: US$776 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:

	2013 US$'000	2012 US$'000
Currency:		
US Dollar	**14,384**	21,047
Russian Rouble	**181,367**	235,382
Euro	**127**	345
Ukrainian Hryvnia	**1,616**	6,521
	197,494	263,295

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

	2013			2012		
	Trade receivables US$'000	**Other US$'000**	**Total US$'000**	Trade receivables US$'000	Other US$'000	Total US$'000
At 1 January	**655**	**776**	**1,431**	1,467	406	1,873
Provision for receivables impairment (Note 6)	**11,114**	**918**	**12,032**	861	469	1,330
Bad debt written off	**(54)**	**(210)**	**(264)**	(1,393)	(120)	(1,513)
Unused amounts reversed (Note 6)	**(37)**	**(329)**	**(366)**	(374)	(8)	(382)
Currency translation differences	**(43)**	**(83)**	**(126)**	94	29	123
At 31 December	**11,635**	**1,072**	**12,707**	655	776	1,431

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 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.

20. INVENTORIES

	2013 US$'000	2012 US$'000
Raw materials, spare parts and consumables	**17,994**	13,675
	17,994	13,675

All inventories are stated at cost.

21. CASH AND CASH EQUIVALENTS

	2013 US$'000	2012 US$'000
Cash at bank and in hand	**48,755**	73,944
Short term bank deposits	**55,348**	104,246
Total cash and cash equivalents	**104,103**	178,190
Restricted cash	**–**	10,000
	104,103	188,190

The effective interest rate on short-term deposits was 3.86% in 2013 (2012: 3.41%) and these deposits have a maturity of 1 to 12 days (2012: 3 to 18 days).

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

	2013 US$'000	2012 US$'000
Cash and cash equivalents	**104,103**	178,190
Total cash and cash equivalents	**104,103**	178,190

Cash and cash equivalents are denominated in the following currencies:

	2013 US$'000	2012 US$'000
Russian Rouble	**86,452**	91,154
US Dollar	**17,206**	86,514
Euro	**138**	171
Ukrainian Hryvnia	**230**	351
Swiss franc	**77**	–
Total cash and cash equivalents	**104,103**	178,190

As at 31 December 2012, US$10,000 thousand was held on escrow account to secure the obligations of the Company under the agreement for acquisition of 100 per cent interest in OOO MMK-Trans (Note 15). These funds were treated as restricted cash as of 31 December 2012.

Notes to the consolidated financial statements continued

22. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2012	158,135,533	15,814	621,227	637,041
Issue of new shares	20,605,383	2,061	337,928	339,989
Incremental costs directly attributable to the issue of new shares	–	–	(9,684)	(9,684)
At 31 December 2012/1 January 2013/31 December 2013	178,740,916	17,875	949,471	967,346

The total authorised number of ordinary shares at 31 December 2013 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2012: 233,918,128 shares with a par value of US$0.10 per share). All issued shares are fully paid.

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.

Following the offering on 12 July 2012 of Global Depository Receipts, on 17 July 2012, the Company has issued 20,605,383 new ordinary shares out of the authorized share capital as fully paid at a price of US$16.50 (including a premium of US$16.40 per share). In the context of the offering, the Company has sold the 3,637,117 ordinary shares held in treasury at the price of US$16.50 per share for the total value of US$60,012,430.

The expenses directly attributable to the new shares issued amounting to US$9,684 thousand were capitalised against share premium. Included in these expenses is an amount of US$57 thousand for assurance services to the statutory audit firm of the Company.

23. DIVIDENDS

Dividends paid in 2013 and 2012 were US$125,118,641 (US$0.70 per share) and US$98,878,986 (US$0.64 per share) respectively.

At the Annual General Meeting which will take place in 28 April 2014, a final dividend in respect of the profit for the year ended 31 December 2013 of 62 US cents per ordinary share, amounting to a total dividend of US$110,819,368 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 2014.

During the year ended 31 December 2013, the Group declared and paid US$53,377 thousand (2012: US$34,192 thousand) of dividends in favour of non-controlling interests.

24. BORROWINGS

	2013 US$'000	2012 US$'000
Current		
Bank borrowings	**207,784**	181,053
Non-convertible unsecured bonds	**28,955**	31,500
Loans from third parties	**20,823**	–
Finance lease liabilities	**19,409**	25,380
Total current borrowings	**276,971**	237,933
Non-current		
Bank borrowings	**388,209**	414,194
Non-convertible unsecured bonds	**323,138**	367,247
Finance lease liabilities	**25,782**	55,734
Total non-current borrowings	**737,129**	837,175
Total borrowings	**1,014,100**	1,075,108
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**500,422**	203,436
Between 2 and 5 years	**209,862**	578,005
Over 5 years	**1,063**	–
	711,347	781,441

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.

	2013 US$'000	2012 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**20,217**	27,374
Later than 1 year and not later than 5 years	**26,599**	58,188
Future finance charges of finance leases	**(1,625)**	(4,448)
Present value of finance lease liabilities	**45,191**	81,114
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**19,409**	25,380
Later than 1 year and not later than 5 years	**25,782**	55,734
	45,191	81,114

Bank borrowings

Bank borrowings mature by 2019 and bear average interest of 9.04% per annum (2012: 9.5% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2013 and 31 December 2012.

The current and non-current bank borrowings amounting to US$207,784 thousand and US$388,209 thousand respectively (2012: US$180,739 thousand and US$414,194 thousand respectively) are secured by pledge of rolling stock with a carrying net book value of US$795,554 thousand (2012: US$625,375 thousand) (Note 12). The remaining bank borrowings amounting to US$ nil thousand (2012: US$314 thousand) are unsecured.

Non-convertible bonds

Non-convertible Russian Rouble denominated bonds issued by OJSC New Forwarding Company (“NFC”) in 2010 for a total amount of RUB3 billion carry a coupon rate of 9.25% and have an amortising structure with final maturity in 2015.

Additionally, in March 2012, NFC, a Russian subsidiary of the Company, has issued 3-year Russian Rouble denominated exchange-traded bonds for a total amount of RUB10 billion at a coupon rate of 10.00% per annum. Bonds are traded on MICEX SE in Moscow.

The Company acts as the guarantor for both existing bond issues.

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:

	2013 US$'000	2012 US$'000
6 months or less	**273,331**	357,484
6 to 12 months	**84,943**	63,978
1 to 5 years	**654,764**	653,646
over 5 years	**1,062**	–
	1,014,100	1,075,108

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

	Carrying amount		Fair value	
	2013 US$'000	2012 US$'000	2013 US$'000	2012 US$'000
Bank borrowings	**388,209**	414,194	**387,646**	412,998
Non-convertible unsecured bonds	**323,138**	367,247	**325,045**	369,674
Finance lease liabilities	**25,782**	55,734	**25,782**	55,734
	737,129	837,175	**738,473**	838,406

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

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

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

[2] Moscow Interbank Currency Exchange

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

	2013 US$'000	2012 US$'000
US Dollar	**59,644**	98,010
Russian Rouble	**954,426**	975,108
Euro	**30**	1,990
	1,014,100	1,075,108

The Group has the following undrawn borrowing facilities:

	2013 US$'000	2012 US$'000
Floating rate:		
Expiring within one year	**4,583**	149,985
Fixed rate:		
Expiring within one year	**21,205**	37,204
Expiring beyond one year	**166,518**	–
	192,306	187,189

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

	2013 %	2012 %
Bank borrowings	**9.0**	9.5
Non-convertible unsecured bonds	**9.9**	9.9
Loans from third parties	**17.0**[1]	–
Finance lease liabilities	**2.9**	2.9

[1] Loans from third parties were obtained by UWC prior to its acquisition by the Group, bear the nominal interest of US$11.25% and are repayable by end of March 2014 (Note 16).

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:

	2013 US$'000	2012 US$'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**148,029**	126,789
– Deferred tax liability to be recovered within 12 months	**(4,140)**	(1,715)
Deferred tax liabilities	**143,889**	125,074

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

	2013 US$'000	2012 US$'000
Beginning of year	**125,074**	35,247
Income statement charge (Note 10)	**1,938**	15,502
Acquisition of subsidiaries (Note 15)	**46,693**	80,877
Withholding tax on actual dividend distribution	**(15,961)**	(8,873)
Currency translation differences	**(13,855)**	2,321
End of year	**143,889**	125,074

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$'000**	**Withholding tax provision US$'000**	**Intangible assets US$'00**	**Total US$'000**
At 1 January 2012	28,244	10,509	–	38,753
Charged/(credited) to:				
Income statement (Note 10)	(1,544)	6,229	(1,516)	3,169
Acquisition of subsidiaries (Note 15)	65,546	4,975	12,671	83,192
Change in intention for distribution of dividends by subsidiary (Note 10)	–	11,059	–	11,059
Withholding tax on actual dividend distribution	–	(8,873)	–	(8,873)
Currency translation differences	1,399	1,191	(111)	2,479
At 31 December 2012/1 January 2013	93,645	25,090	11,044	129,779
Charged/(credited) to:				
Income statement (Note 10)	(2,286)	12,190	(4,512)	5,392
Acquisition of subsidiaries (Note 15)	16,380	1,346	32,262	49,988
Withholding tax on actual dividend distribution	–	(15,961)	–	(15,961)
Currency translation differences	(7,936)	(3,345)	(3,250)	(14,531)
At 31 December 2013	99,803	19,320	35,544	154,667

Notes to the consolidated financial statements continued

Deferred tax assets	Lease liability US$'000	Trade and other payables US$'000	Borrowings US$'000	Other assets/ liabilities US$'000	Total US$'000
At 1 January 2012	(1,532)	(547)	–	(1,427)	(3,506)
Charged/(credited) to:					
Income statement (Note 10)	1,267	1,139	–	(1,132)	1,274
Acquisition of subsidiaries (Note 15)	–	(2,352)	–	38	(2,314)
Currency translation differences	(60)	32	–	(131)	(159)
At 31 December 2012/1 January 2013	(325)	(1,728)	–	(2,652)	(4,705)
Charged/(credited) to:					
Income statement (Note 10)	(1,835)	(1,291)	1,113	(1,441)	(3,454)
Acquisition of subsidiaries (Note 15)	(654)	(297)	(2,145)	(200)	(3,296)
Currency translation differences	118	180	144	235	677
At 31 December 2013	(2,696)	(3,136)	(888)	(4,058)	(10,778)

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.

Deferred income tax liabilities of US$62,739 thousand (2012: US$60,143 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 on which no deferred tax liability was recognised totalled US$494,525 thousand as at 31 December 2013 (2012: US$553,778 thousand).

26. TRADE AND OTHER PAYABLES

	2013 US$'000	2012 US$'000
Current		
Trade payables to third parties	**21,433**	28,733
Trade payables to related parties (Note 30)	**322**	502
Other payables to third parties	**29,513**	32,960
Accrued expenses	**8,888**	4,816
Advances from customers for transportation services	**56,110**	67,347
Advances from related parties for sale of wagons (Note 30)	**7**	1,210
	116,273	135,568

Note: advances from customers and related parties consist of prepayments received in accordance with contracts on transportation services.

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.

	2013	2012
Profit attributable to equity holders of the company (US$ thousand)	**181,717**	258,016
Weighted average number of ordinary shares in issue (thousand)	**178,741**	165,580
Basic and diluted earnings per share (expressed in US$ per share)	**1.02**	1.56

28. CONTINGENCIES

Operating environment

The Group and its subsidiaries operate in the Russian Federation, Estonia and Ukraine.

Russian Federation.

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's goodwill and intangible assets by considering the current economic environment and outlook. Refer to Note 13. The future economic and regulatory situation may differ from management's current expectations.

Estonia

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 ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's property, plant and equipment by considering the current economic environment and outlook. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. The future economic and regulatory situation may differ from management's current expectations.

Ukraine

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. As a developing economy, it is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In 2013, the world demand for Ukraine's main export commodities, steel and iron ore, was weak. The year was marked by one of record crop harvests; however world prices for wheat, corn and sunflower seed reduced significantly due to peak harvests in other crop producing regions. In 2013 Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia. Inflation during the year was close to zero as the National Bank of Ukraine reduced the money supply. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with the International Monetary Fund, and to pay the current and past purchase of natural gas.

Notes to the consolidated financial statements continued

The anticipated association agreement with the European Union was not signed at the end of November 2013. The Government announced a deal with the Russian Federation for the purchase of Ukrainian Government bonds up to US$15 billion, of which US$3 billion was provided in December 2013. The political system of Ukraine experienced instability with a number of protests against the Government's actions in late 2013 and street violence in January - February 2014. At the end of January 2014, the President of Ukraine accepted the resignation of Ukraine's Prime Minister. Following this, the Russian Government suspended the support of the Ukrainian Government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. To stabilise the deteriorating political situation, the Parliament voted a return of the 2004 Constitution and dismissed the President. On 26 February, the newly formed Parliament majority coalition appointed a Prime Minister and the Government.

During January-February 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The new Government called for immediate dialogue with the International Monetary Fund to provide financing and avoid possible default. On 1 March, the Russian parliament granted approval for the use of armed forces in Ukraine. Russian troops are believed to be occupying government offices and other locations in Crimea. The Ukrainian armed forces were put on full alert. The government in Crimea held a referendum on joining the Russian Federation on 16 March, following which the region of Crimea and the Russian Federation announced the joining of Crimea to Russia.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business.

Finally, the Group's business is heavily dependent on a few large key customers. Historically, the Group did 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. In 2012, as part of the acquisition of OOO Ferrotrans, the Group has signed three-year service contract with Metalloinvest Group (Note 15). Moreover, in December 2012 as part of the agreement for the acquisition of OOO MMK-Trans the Group has agreed a five-year service contract with MMK (Note 15).

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 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 challenged tax 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 when decision about review was made. Under certain circumstances reviews may cover longer periods.

The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management believes that its pricing policy used in 2012, 2013 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided 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 included 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 differed 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 that transfer pricing legislation in practice.

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. Given the specifics of transfer pricing rules, the impact of any challenge to the Group's transfer prices 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 tax 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.

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 2013 and 31 December 2012 (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.

Legal proceedings

During the year ended 31 December 2013, the Group was involved as a claimant and defendant in a number of court proceedings.

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 were 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. This decision, however, was set aside by the Court of Appeals in July 2012. In October 2012, Federal Arbitration Court amended this decision of Court of Appeals and pledgee's right on pledged assets was recognised as void again. In the court hearing in Moldova in December 2012 the claimant withdrawn his claim and the court proceedings were terminated.

In February 2012, the pledgee in the above case has also brought a similar claim against the same subsidiary of the Company. It is claimed that such subsidiary of the Company owes to the pledgee RR24,438 thousand (US$745 thousand at 30 June 2012 exchange rate) based on the fact that the right of claim in respect of 50 railcars remained with the pledgee. On 22 June 2012, the court of first instance dismissed the case. The pledgee has appealed and the court of appeal has left the decision of the court of first instance in force. The same decision was upheld on 19 February 2013 by the court of cassation, after the bank has filed the cassation appeal.

Notes to the consolidated financial statements continued

During the year ended 31 December 2013, the Company's subsidiaries were involved in a number of legal proceedings. In March 2013 the Federal Antimonopoly Service of the Russian Federation ("FAS Russia") initiated a legal proceeding suggesting a possible violation of the Federal Law "On protection of competition" by OJSC "Russian Railways" and several other railway-operator companies, including the Company's subsidiaries OAO New Forwarding Company and OOO Ferrotrans. The defendants were accused on establishment of cartel agreement and coordination of economic activity through the creation of a pool of the largest railway-operator companies operating in Kemerovo region. Several court hearings have been held in 2013. In December 2013, FAS Russia claimed penalties from OAO New Forwarding Company and OOO Ferrotrans as administrative fines in the total amount of RR 130,926 thousand (US$4,000 thousand). These administrative fines include an amount of RR 57,892 thousand (US$1,769 thousand) which has been charged to OOO Ferrotrans for which the Group is indemnified from Metalloinvest group.

Management believes that the Group has not executed any actions resulting in violation of antimonopoly legislation. As at 31 December 2013, the Group has made a provision of RR 5,482 thousand against the potential fines stipulated by the Russian Legislation should the offence be proved in Court.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2013 and 2012 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:

	2013 US$'000	2012 US$'000
Property, plant and equipment	–	676

(b) Operating lease commitments – Group as lessee

The Group leases offices under non-cancellable operating lease agreements.

The Group also leases various types of rolling stock under cancellable and non-cancellable operating lease agreements. 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:

	2013 US$'000	2012 US$'000
Not later than 1 year	27,369	35,793
Later than 1 year not later than 5 years	4,127	6,228
	31,496	42,021

(c) Operating lease commitments – Group as lessor

The Group leases out rolling stock and locomotives under cancellable and non-cancellable operating lease agreements. The future aggregate minimum lease payments receivable under non-cancellable operating leases in which the Group is acting as the lessor are as follows:

	2013 US$'000	2012 US$'000
Not later than 1 year	39,711	39,420
Later than 1 year not later than 5 years	17,129	12,939
	56,840	52,359

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2013 (2012: US$nil).

30. RELATED PARTY TRANSACTIONS

Until July 2012, the Group was controlled by Transportation Investments Holding Limited ("TIHL") incorporated in Cyprus, which owned 50.1% of the Company's shares. Envesta Investments Limited ("EIL") owned 12.3% (including the holding of GDRs of the Company) of the Company's shares until July 2012. Until July 2012, the ultimate controlling party of the Group was Mirbay International Inc., which is registered in Bahamas.

Following the issue and sale of shares by the Company and sale of shares by the existing shareholders in July 2012, the Group no longer has an ultimate controlling party.

In March 2013, TIHL transferred the shares it held in the Company to Maple Valley Investments, Marigold Investments and Onyx Investments in equal proportions and since March 2013 is no longer a related party to the Company.

Following the above events, shares held by its major shareholders, Maple Valley Investments, Marigold Investments and Onyx Investments as at 31 December 2013 were 11.5% each. EIL together with their affiliated entities held 10.8% as at 31 December 2013. 54.5% of the shares represent the free marketfloat and are held by external investors through the Global Depositary Receipts. The remaining 0.2% of the shares of the Company are controlled by Directors and management of the Group.

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

	2013 US$'000	2012 US$'000
Sales of services:		
Associate	**128**	–
Other related parties:		
Entities under control of TIHL and its controlling shareholders	**16,623**	37,241
Entities under joint control by TIHL	**84**	–
Entities under significant influence of TIHL	**–**	28
Entities under significant influence of members of key management	**12,268**	126,389
	29,103	163,658

(b) Purchases of goods and services

	2013 US$'000	2012 US$'000
Purchases of services:		
Other related parties		
Entities under control of TIHL	**1,131**	9,873
Entities under control by parties with significant influence over the Group	**251**	1,030
Entities under significant influence of members of key management	**8,418**	18,869
	9,800	29,772

(c) Additions and disposals of property, plant and equipment

	2013 US$'000	2012 US$'000
Additions:		
Other related parties		
Entities under control of TIHL	**–**	1,178
Entities under significant influence of TIHL	**124**	–
Entities under significant influence of members of key management	**–**	362
	124	1,540

Notes to the consolidated financial statements continued

Profit on disposal of property, plant and equipment:		
Other related parties		
Entities under control of TIHL	**57**	–
Entities under significant influence of members of key management	**295**	–
	352	–

(d) Key management compensation

	2013 US$'000	2012 US$'000
Key management salaries and other short term employee benefits	**25,517**	26,002
	25,517	26,002

Note: 'key management salaries and other short term employee benefits' include 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$3,627 thousand (2012: US$7,935 thousand).

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

	2013 US$'000	2012 US$'000
Trade receivable from related parties (Note 19):		
Associate	**157**	–
Other related parties		
Entities under control of TIHL	**–**	5,768
Entities under significant influence of members of key management	**4**	10,728
	161	16,496
Other receivables from related parties (Note 19):		
Other related parties		
Entities under control of TIHL	**–**	3
Entities under significant influence of members of key management	**–**	1
	–	4
Prepayments to related parties (Note 19):		
Other related parties		
Entities under control of TIHL	**–**	1,580
Entities under significant influence of members of key management	**1,215**	1,193
	1,215	2,773

	2013 US$'000	2012 US$'000
Trade payables to related parties (Note 26):		
Associate	**5**	–
Directors	**60**	–
Other related parties		
Entities under control of TIHL	**–**	286
Entities under significant influence of members of key management	**257**	216
	322	502
Advances from related parties (Note 26):		
Other related parties		
Entities under control of TIHL	**–**	76
Entities under significant influence of members of key management	**7**	1,134
	7	1,210

(g) Operating lease commitments – Group as lessee

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

	2013 US$'000	2012 US$'000
Not later than 1 year	**1,730**	5,570
Later than 1 year and not later than 5 years	**2,130**	3,796
	3,860	9,366

Operating lease commitments with 'other related parties' amounting to US$3,860 thousand were to entities under significant influence of members of key management (2012: US$8,630 thousand), with the rest of the commitments were to entities under control of TIHL.

(i) Operating lease commitments – Group as lessor

The future minimum lease payments receivable under operating leases with other related parties (entities under control by TIHL) are as follows:

	2013 US$'000	2012 US$'000
Not later than one year	**–**	26

31. EVENTS AFTER THE BALANCE SHEET DATE

In January 2014 the Group has agreed with Metalloinvest to extend the duration of the service contract between them and will continue transporting 100% of Metalloinvest rail volumes to the end of 2016 (an extension from 31 May 2015 as was initially agreed). The pricing formula remains unchanged with transportation prices subject to quarterly review and agreement between the parties.

At the Annual General Meeting which will take place in 28 April 2014, a final dividend in respect of the profit for the year ended 31 December 2013 of 62 US cents per ordinary share, amounting to a total dividend of US$110,819,368 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 2014.

As at 27 March 2014, the Russian Rouble has depreciated by 8.3% against the US Dollar, compared to 31 December 2013.

There were no other material post balance sheet events which have a bearing in the understanding of these consolidated financial statements.

Independent Auditor's Report on pages 8 to 9.

Directors' report and parent company financial statements for the year ended 31 December 2013

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Board of Directors and other officers

Board of Directors

Mr. Michael Zampelas
Chairman of the Board of Directors
Independent Non-Executive Director
Member of Remuneration and Nomination Committees

Mr. Sergey Maltsev
Executive Director, Chief Executive Officer
Alternate Director: Mr. Artemis M. Thomaides

Mr. Konstantin Shirokov
Executive Director

Mr. Mikhail Loganov
Non-Executive Director as from 21 October 2013
Executive Director until 20 October 2013

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

Mr. Alexander Eliseev
Non-Executive Director
Alternate Director: Ms. Ekaterina Golubeva (appointed on 2 September 2013)

Dr. Johann Franz Durrer
Senior Independent Non-Executive Director
Chairman of Remuneration and Nomination Committees

Mr. Alexander Storozhev
Executive Director
Appointed on 19 April 2013
Alternate Director: Ms. Elia Nicolaou

Mr. Alexander Tarasov
Executive Director
Appointed on 19 April 2013
Alternate Director: Mr. Mikhail Loganov

Mr. John Carroll Colley
Independent Non-Executive Director
Chairman of the Audit Committee
Appointed on 19 April 2013

Mr. George Papaioannou
Independent Non-Executive Director
Member of the Audit Committee
Appointed on 19 April 2013

Mr. Andrey Gomon
Non-Executive Director
Appointed on 19 April 2013
Alternate Director: Ms. Melina Pyrgou

Ms. Melina Pyrgou
Non-Executive Director
Appointed on 19 April 2013

Mr. Marios Tofaros
Non-Executive Director
Appointed on 19 April 2013

Mr. Sergey Tolmachev
Executive Director since 21 October 2013
Non-Executive Director from appointment to 20 October 2013
Appointed on 19 April 2013

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 parent company financial statements for the year ended 31 December 2013. 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 Group for the year ended 31 December 2013 was US$295.380 thousand (2012: US$135,780 thousand). On 31 December 2013 the total assets of the Group were US$1,419,472 thousand (2012: US$1,391,435 thousand) and the net assets were US$1,280,332 thousand (2012: US$1,195,027 thousand).

On 12 February 2013 the Company completed the acquisition of 100 per cent of the share capital of OOO Steeltrans (formerly MMK-Trans), the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. The total consideration was US$251,317 thousand. OOO Steeltrans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. As part of the transaction, Globaltrans entered into a five-year contract guaranteed by MMK Group to supply it with rail transportation services for at least 70% of MMK's rail cargo flows. As a result of the acquisition Globaltrans expects to further enhance its position as a leading independent private freight rail group in Russia.

At the time of the acquisition of OOO Steeltrans, the Company entered into a call option agreement for the acquisition of 52.5% of the share capital of Amalfico Holdings Limited, incorporated in Cyprus, a holding company owning 97% of the share capital of ZAO Ural Wagonrepair Company (UWC), incorporated in Russia, a company offering railcar repair services. At the time of the acquisition, the remaining 47.5% of Amalfico Holdings Limited was held by OOO Steeltrans, and hence an effective interest of 46.1 per cent of UWC is controlled by OOO Steeltrans and formed part of the acquisition.

The rights of this option were transferred to Steeltrans OOO during the year following which Steeltrans OOO entered into a share purchase agreement to acquire 52.5% economic interest in Amalfico on 30 November 2013. Following this agreement the Group controls 100% of the share capital of Amalfico Holdings Limited, which owns 97% of the share capital of ZAO Ural Wagonrepair Company (UWC).

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 23 to the financial statements.

The Board has adopted a formal process to identify, evaluate and manage principal risks and uncertainties 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 10 and 11. The Board of Directors recommended the payment of a dividend in relation to the year 2013 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.

During 2013 the Board of Directors has not declared any interim dividends in relation to 2013.

In April 2013, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2012 in the amount of 70 US cents per ordinary share, amounting to a total dividend of US$125,118,641.

The Board of Directors of the Company recommends a payment of dividend in relation to the financial year ended 31 December 2013 in the amount of 62 US cents per ordinary share, amounting to a total dividend of US$110,819,368.

Share capital

As at 31 December 2013 the issued share capital of the Company comprised 178,740,916 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 15 members (7 members in 2012), ten (four for the year 2012) of whom are Non-Executive Directors (including the Chairman). Four (two for the year 2012) of the Non-Executive Directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2013 and at the date of this report are shown on page 1. On 19 April 2013 there were changes in the composition of the Board of Directors, where 8 new directors including 2 new independent directors have been appointed. There were no significant changes in the assignment of responsibilities of the Board of Directors with the only exception of Mr Loganov who acted as an Executive Director until 20 October 2013 and has since been acting as a Non-Executive Director. Mr Sergey Tolmachev who was appointed on 19 April 2013 as a Non-Executive Director, was appointed as an Executive Director on 21 October 2013.

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

The total remuneration of the members of the Board of Directors paid by the Company in 2013 amounted to US$454 thousand (2012: US$391 thousand).

Report of the Board of Directors continued

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 2013 and 31 December 2012 are shown below:

Name	Type of holding	2013	2012
Alexander Eliseev	Indirect holding of ordinary shares and GDRs	11,318,909	11,318,909
Sergey Maltsev	Indirect holding of ordinary shares and GDRs	8,021,339	8,021,339
Johann Franz Durrer	Holding of GDRs	160,606	160,606

Total number of issued shares of the Company as at 31 December 2013 was 178,740,916 (31 December 2012: 178,740,916).

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 24 to the parent company financial statements.

Board performance

The Board held 14 meetings in 2013. On 19 April 2013 the number of members of the Board of Directors has been increased from seven to fifteen. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	6
Michael Zampelas	14
Johann Franz Durrer	14
Sergey Maltsev	12
Mikhail Loganov	13
Elia Nicolaou	14
Konstantin Shirokov	13
Carroll Colley	9
George Papaioannou	9
Andrey Gomon	7
Melina Pyrgou	9
Alexander Storozhev	9
Marios Tofaros	9
Sergey Tolmachev	9
Alexander Tarasov	6

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 three Directors, two of whom are independent, and meets at least four times each year. The Audit Committee is chaired by Mr. J. Carroll Colley and is also attended by George Papaioannou and 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 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 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.

Nomination Committee

The Nomination Committee comprises two Independent Directors and meets at least once a year. The Nomination Committee is chaired by Dr. Durrer and Mr. Zampelas is the other member. 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.

Remuneration Committee

The Remuneration Committee comprises two Independent Directors and meets at least once a year. The Remuneration Committee is chaired by Dr. Durrer and Mr. Zampelas is the other member. 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.

Corporate governance

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 Corporate Governance Code (formerly the Combined Code), 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 non-controlling 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 19 April 2013.

Refer to Note 22 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

In 2013 the Company didn't own or acquire either directly or through a person in his own name, but on Company's behalf any of its own shares.

Report of the Board of Directors continued

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. All of such treasury shares were sold by the Company in the context of the offering in July 2012 at the price of US$16.50 per share for the total value of US$60,012,430.

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 parent company financial statements based on the fact that, after making enquiries and following a review of the Company's budget for 2014, including cash flows arising from expected dividend distributions from subsidiaries and extension of borrowing facilities from subsidiaries, 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

Sergey Tolmachev
Director
Limassol, 28 March 2014

Directors' responsibility

The Company's 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 it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Each of the Directors confirms to the best of his or her knowledge that the financial statements (presented on pages 10 to 43) give a true and fair view of the financial position of the parent company Globaltrans Investment PLC as at 31 December 2013 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.

Further, each of the Directors confirms to the best of his or her knowledge that:

i) proper books of account have been kept by the Company;

ii) the Company's financial statements are in agreement with the books;

iii) the financial statements give the information required by the Cyprus Companies Law, Cap.113 in the manner so required; and

iv) the information given in the report of the Board of Directors is consistent with the financial statements.

By order of the Board

Sergey Tolmachev
Director
28 March 2014

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 2013, 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.

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 2013, 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

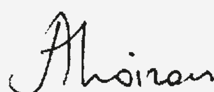
Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- 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, so far as appears from our examination of these books.
- 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 Laws of 2009 and 2013 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 2013.



Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 28 March 2014

Income statement
for the year ended 31 December 2013

	Note	2013 US$'000	2012 US$'000
Revenue	5	**341,546**	145,011
Selling and marketing costs		**(5,548)**	(103)
Administrative expenses		**(5,384)**	(4,629)
Other gains – net	6	**841**	1,022
Operating profit		**331,455**	141,301
Finance income	9	**3,458**	3,761
Finance costs	9	**(26,596)**	(4,583)
Finance costs – net	9	**(23,138)**	(822)
Profit before tax		**308,317**	140,479
Tax	10	**(12,937)**	(4,699)
Profit for the year		**295,380**	135,780

The notes on pages 15 to 43 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2013

	2013 US$'000	2012 US$'000
Profit for the year	**295,380**	135,780
Other comprehensive (loss)/income:Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	**(84,956)**	71,556
Other comprehensive (loss)/income for the year, net of tax	**(84,956)**	71,556
Total comprehensive income for the year	**210,424**	207,336

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 15 to 43 are an integral part of these financial statements.

Balance sheet

at 31 December 2013

	Note	2013 US$'000	2012 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**1,386,061**	1,244,051
Property, plant and equipment	13	**73**	26
Loans and other receivables	17	**29,694**	40,151
Total non-current assets		**1,415,828**	1,284,228
Current assets			
Loans and other receivables	17	**2,920**	5,707
Income tax assets		**236**	28
Restricted cash	18	**–**	10,000
Cash and cash equivalents	18	**488**	91,472
TOTAL CURRENT ASSETS		**3,644**	107,207
TOTAL ASSETS		**1,419,472**	1,391,435
Equity and liabilities			
Capital and reserves			
Share capital	19	**17,875**	17,875
Share premium	19	**949,471**	949,471
Capital contribution		**90,000**	90,000
Translation reserve		**(112,985)**	(28,029)
Retained earnings		**335,971**	165,710
Total		**1,280,332**	1,195,027
Non-current liabilities			
Borrowings	20	**132,271**	–
Total non-current liabilities		**132,271**	–
Current liabilities			
Borrowings	20	**498**	–
Payables and accrued expenses	21	**6,371**	196,408
Total current liabilities		**6,869**	196,408
TOTAL LIABILITIES		**139,140**	196,408
TOTAL EQUITY AND LIABILITIES		**1,419,472**	1,391,435

On 28 March 2014 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Sergey Tolmachev, Director

Konstantin Shirokov, Director

The notes on pages 15 to 43 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2013

	Note	Share capital US$'000	Share premium US$'000	Treasury shares US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000
Balance at 1 January 2012		15,814	621,227	–	(99,585)	90,000	111,970	739,426
Comprehensive income								
Profit for the year		–	–	–	–	–	135,780	135,780
Other comprehensive loss								
Currency translation differences		–	–	–	71,556	–	–	71,556
Total comprehensive income for 2012		–	–	–	71,556	–	135,780	207,336
Transactions with owners								
Issue of shares	19	2,061	337,928	–	–	–	–	339,989
Expenses related to issue of shares	19	–	(9,684)	–	–	–	–	(9,684)
Purchase of treasury shares	19	–	–	(43,173)	–	–	–	(43,173)
Sale of treasury shares	19	–	–	43,173	–	–	16,839	60,012
Dividend relating to 2011	12	–	–	–	–	–	(98,879)	(98,879)
Total contributions by and distributions to owners of the Company		2,061	328,244	–	–	–	(82,040)	248,265
Total transactions with owners		2,061	328,244	–	–	–	(82,040)	248,265
Balance at 31 December 2012/1 January 2013		17,875	949,471	–	(28,029)	90,000	165,710	1,195,027
Comprehensive income								
Profit for the year		–	–	–	–	–	295,380	295,380
Other comprehensive loss								
Currency translation differences		–	–	–	(84,956)	–	–	(84,956)
Total comprehensive income for 2013		–	–	–	(84,956)	–	295,380	210,424
Transactions with owners								
Dividend relating to 2012	12	–	–	–	–	–	(125,119)	(125,119)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	(125,119)	(125,119)
Total transactions with owners		–	–	–	–	–	(125,119)	(125,119)
Balance at 31 December 2013		17,875	949,471	–	(112,985)	90,000	335,971	1,280,332

The notes on pages 15 to 43 are an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2013

	Note	2013 US$'000	2012 US$'000
Cash flows from operating activities			
Profit before tax		**308,317**	140,479
Adjustments for:			
Depreciation of property, plant and equipment	13	**15**	11
Gain on sale of property, plant and equipment	7	**(1)**	–
Interest income	9	**(104)**	(3)
Interest expense	9	**29,689**	8,242
Gain on re-measurement of financial liability	9	**(2,154)**	(3,755)
Impairment loss of loans receivables	7	**5,424**	–
Foreign exchange losses on finance income/costs	11	**(5,833)**	(3,662)
Other financial costs	9	**1,540**	(3,662)
Amortisation of financial guarantees	6	**(863)**	(951)
Operating cash flows before working capital changes		**336,030**	140,361
Changes in working capital:			
Other receivables		**(190)**	(620)
Payables and accrued expenses		**(473)**	285
Net cash generated from operations		**335,367**	140,026
Tax paid		**(13,118)**	(4,886)
Net cash generated from operating activities		**322,249**	135,140
Cash flows from investing activities			
Acquisition of subsidiaries	14	**(423,819)**	(400,000)
Advance payment for acquisition of subsidiary – restricted cash	14	**–**	(10,000)
Purchases of property, plant and equipment	13	**(77)**	–
Proceeds from sale of property plant and equipment	13	**13**	–
Loans granted to related parties	22	**(10,351)**	(85,562)
Loan repayments received from related parties	22	**14,410**	157,136
Interest received on bank balances and bank deposits		**104**	3
Net cash used in investing activities		**(419,720)**	(338,423)
Cash flows from financing activities			
Proceeds from borrowings – related parties	22	**136,658**	90
Proceeds from borrowings – third parties		**187,961**	–
Repayment of borrowings – related parties	22	**(575)**	(90)
Interest paid - third parties		**(13,537)**	–
Interest paid - related parties	22	**(6,559)**	–
Repayment of borrowings – third parties		**(174,770)**	–
Purchase of treasury shares	19	**–**	(43,173)
Proceeds from the sale of treasury shares	19	**–**	60,012
Proceeds from the issue of shares – net of expenses	19	**–**	330,305
Dividends paid to Company's shareholders	12	**(125,119)**	(98,879)
Net cash from financing activities		**4,059**	248,265
Net (decrease)/increase in cash and cash equivalents		**(93,412)**	44,981
Exchange gains on cash and cash equivalents		**2,428**	1,702
Cash and cash equivalents at beginning of year	18	**91,472**	44,788
Cash and cash equivalents at end of year	18	**488**	91,472

The notes on pages 15 to 43 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 28 March 2014.

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 2013 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 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 separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2013 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

Notes to the financial statements continued

New Standards, Interpretations and amendments to published standards

(a) The Company has adopted the following new standards, amendments and interpretations as of 1 January 2013 and are relevant to the Company:

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) improved consistency and reduced 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 Standard resulted in additional disclosures in these financial statements. Refer to Note 17.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012) changed 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 amended standard resulted in changed presentation of financial statements, but did not have any impact on measurement of transactions and balances.

"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 enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The Standard resulted in additional disclosures in these financial statements. The Standard did not have any material impact on the Company's financial statements.

(b) The Company has early adopted the following new standards, amendments and interpretations as of 1 January 2013 that have an impact on the Group:

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Company has opted to early adopt this amendment and as a result it does not disclose the recoverable amount of CGU containing goodwill when there is no impairment.

(c) Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, that are expected to have an impact on the financial statements and which the Company has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement"*. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- 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.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.
- The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Company does not intend to adopt the existing version of IFRS 9.

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013: EU 1 January 2014) 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 Standard did not have any material impact on the Company's financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU 1 January 2014) 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 previously 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 judgements 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 Standard was not early adopted by the Company. The standard is expected to improve disclosures of consolidated entities of the Company.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU 1 January 2014) 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 amended standard is not expected to have any material impact on the Company's financial statements.

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 is considering the implications of the amendment and its impact on the Company.

"Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12" (issued in June 2012 and effective for annual periods beginning 1 January 2013; EU 1 January 2014). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards are not expected to have any material impact on the Company's financial statements other than application of the relief from disclosure of certain comparative information in the notes to the financial statements.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014)*. The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Company is currently assessing the impact of the amendments on its financial statements.

Notes to the financial statements continued

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below*). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Company is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014*). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a Company of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3to determine whether the acquisition of an investment property is a business combination. The Company is currently assessing the impact of the amendments on its financial statements.

* denotes new standards and interpretations which have not yet been endorsed 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. When a loan and receivable is impaired the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the 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 financial liabilities are presented in the income statement within 'Finance costs'. Foreign exchange gains and losses that relate to cash and cash equivalents, loans and dividends receivable 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/(losses) – 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.

Notes to the financial statements continued

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.

Operating 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. 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.

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	3-5

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 as part of operating expenses.

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. Potential voting rights are also considered when assessing whether the Company controls another entity. 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 any asset/liability arising from a contingent consideration arrangement is adjusted against the cost of the investment in subsidiary.

In cases of acquisitions of subsidiaries from entities under common control or subsidiaries of the Company, the cost of acquisition is determined to be the fair value of the investment acquired as opposed to the transaction price. Any differences between the transaction price and the fair value of the investment acquired reflect notional contributions/distributions from entities under common control or subsidiaries and are recognised as such, i.e. directly in equity in cases of transactions with common control entities and as an additional contribution to or distribution from the subsidiary transferring the investment to the Company.

Deferred consideration

Deferred consideration arises when settlement of all or any part of the cost of an acquisition is deferred. Deferred consideration is stated at fair value at the date of acquisition, which is determined by discounting the amounts due to present value using market interest rates at the date of initial recognition. Interest is accrued on the fair value of deferred consideration at the original effective interest rate and is recognised in finance costs.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts, including costs or fees incurred for the modification, is recognised in profit or loss. When the terms of the existing financial liability are not substantially modified, the existing liability is not derecognised and the gain/loss arising on the modification, including costs or fees incurred for the modification is recognised in profit or loss within finance costs.

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. 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 Company's loans and receivables comprise receivables, loans to related and third parties, restricted cash and cash and cash equivalents in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Loans and receivables are recognised when the funds are advanced to the debtor/borrower.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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, share premium and treasury shares

Ordinary shares are classified as equity.

Notes to the financial statements continued

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 within a separate reserve 'treasury shares' 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 within retained earnings. The consideration initially paid for treasury shares which are subsequently re-issued is transferred from 'treasury shares' to retained earnings.

Provisions and contingent liabilities

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

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

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

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

Borrowings

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

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

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

Financial guarantees

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the end of the reporting period.

Fair values of financial guarantees 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 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 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.

Restricted cash

Restricted cash includes cash deposits which have restrictions governing their use and is classified as a current or non-current asset based on the estimated remaining length of the restriction. Cash paid into escrow accounts for the purpose of a future business combination transactions is included within investing activities in the statement of cash flows.

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.

Cash flow statement

Cash flows arising from dividend income and interest income on loans granted to related parties which form part of the revenue of the Company are reported as part of operating activities in the cash flow statement. Interest income received on other balances which form part of the Company's finance income are reported within cash flows from investing activities in the cash flow statement.

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.

During the first four months of 2012, the Russian Rouble has strengthened against the US Dollar, however starting from May 2012, the value of Russian Rouble against the US Dollar depreciated. In the second half of 2012, the Russian Rouble has partially recovered its value. During 2013 the Russian Rouble has depreciated consistently against the US Dollar. The fluctuations in the exchange rate between US Dollar and Russian Rouble expose the Company to foreign exchange risk.

The carrying amounts of monetary assets and liabilities denominated in US Dollars as at 31 December 2013 and 31 December 2012 are as follows:

	2013 US$'000	2012 US$'000
Assets	**33,025**	112,200
Liabilities	**35,065**	67

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 2013 would have increased/decreased by US$(267) thousand (2012: 15% change, effect US$15,138 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of accounts receivable, restricted cash and cash and cash equivalents and borrowings from related parties denominated in US Dollars. Profit was less sensitive to fluctuations in exchange rate of Russian Rouble to US Dollar for the year ended 31 December 2013 compared to 2012 mainly due to decrease in cash balances held in US Dollars at the end of 2013 and the increase in US Dollar denominated borrowings.

The Company's current policy is not to hedge this foreign exchange risk.

Notes to the financial statements continued

(b) Cash flow and fair value interest rate risk

The Company holds interest bearing financial instruments at both fixed and floating rates interest rates.

Financial assets and liabilities issued at fixed rates expose the Company 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 2013 and 31 December 2012 would not have any impact on the Company's post tax profit or equity.

Financial assets and liabilities issued at floating rates expose the Company to cash flow interest rate risk. During the year, the Company has obtained borrowings from its subsidiaries at floating rates. Had Russian Rouble lease 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 Company would have changed by US$884 thousand for the year ended 31 December 2013 (2012: nil).

(c) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), restricted cash (Note 18) and cash and cash equivalents (Note 18).

The majority of loans and other receivables are balances with related parties, more specifically with Ukrainian New Forwarding Company ('UNFC'), one of the Company's subsidiaries. Loans to UNFC amounting to US$37,829 thousand before the provision as of 31 December 2013, were partially impaired and provided for (2012: US$ Nil). The provision amounting to US$5,424 thousand arising was due to the difficult economic situation in Ukraine.

The majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These enables the Company to reduce its credit risk significantly.

Other than as explain above, as of 31 December 2013 and 31 December 2012 there were no other loans and other receivables, cash and cash equivalents or restricted cash that were past due or impaired.

(d) Liquidity risk

As at 31 December 2013, the Company has an excess of current liabilities over current assets of US$3,225 thousand (2012: excess of current liabilities over current assets of US$89,201 thousand). Management plans to finance this deficit by dividend income from subsidiaries as well by interest receivable on loans provided to subsidiaries.

Management believes that the Company will be able to meet its obligations as they fall due.

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

The table below summarizes the analysis of financial liabilities of the Company by maturity as of 31 December 2013 and 31 December 2012. The amounts in the table are contractual undiscounted cash flows. Non-interest bearing 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$'000	Between 6 months to 1 year US$'000	Over 1 year US$'000	Total US$'000
As of 31 December 2013						
Trade and other payables[1]	13	525	4,749	–	–	5,287
Borrowings	–	–	5,559	5,613	177,596	188,768
Financial guarantee contracts[2]	548,004	376,355	11,487	–	–	935,846
	548,017	376,880	21,795	5,613	177,596	1,129,801
As of 31 December 2012						
Trade and other payables[1]	273	225	202,117	–	–	202,615
Financial guarantee contracts[2]	513,807	360,065	19,059	–	–	892,931
	514,080	360,290	221,176	–	–	1,095,546

[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 2013 the Company's borrowings to total capitalisation ratio amounted to 9.40%.
As at 31 December 2012 the Company's borrowings amounted to US$ Nil.

(f) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The estimated fair values of financial instruments have been determined by the Company, 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.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be

Notes to the financial statements continued

equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated 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.

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. Refer to note 17.

Liabilities carried at amortised cost. The fair values of borrowings and trade and other payables were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The carrying amounts of liabilities carried at amortised cost 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

1. Fair value of guarantees issued

   Management estimated the fair value of the free of charge guarantees issued by the Company in 2012 to secure the liabilities of its subsidiaries based on the best estimate of expenditure required to settle the obligation. As a result the fair value of guarantee issued to secure the obligations of the subsidiary of the Company in relation to a non-convertible bond issue was calculated at nil on initial recognition.

   The fair value of this guarantee was estimated using a probability adjusted discounted cash flow analysis, using probability of default as implied by the market price of the bonds and loss given default as estimated by considering the distressed value of net assets of the issuer of the bonds which were not pledged at the time of the issue of the bonds since in case of default, the Company will be able to recover its losses under the issued guarantee from the subsidiary in full.

   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.

2. Assessment of recoverability of investment in subsidiaries

   At each balance sheet date, the Company reviews its investments in subsidiaries for any indication of impairment in accordance with the accounting policy stated in Note 2. As of 31 December 2013, the carrying amount of one of the investments in subsidiaries in the separate financial statements exceeded the carrying amount in the consolidated financial statements of the subsidiary's net assets, including goodwill. Further there was a general industry decline in the open wagons market segment, in which four of the Company's subsidiaries are operating. These suggested the existence of impairment indicators for these investments in subsidiaries.

Management has assessed that in view of the fact that the acquisitions of LLC Ferrotrans and OOO Steeltrans give rise to synergies benefiting other legal subsidiaries of the Company, the activities of the individual subsidiaries of the Company involve intra-group transactions of leasing the rolling stock, and there are also ongoing restructuring of activities between the group entities, allocation of value between LLC Ferrotrans and OOO Steeltrans and other subsidiaries would not be possible on a non-arbitrary basis. Therefore the management has assessed impairment at the group of CGUs which represent the lowest level which is expected to benefit from the synergies arising on the acquisition of LLC Ferrotrans and OOO Steeltrans and the level at which these synergies are monitored by management, which is represented by the Russian open wagons/operator's services segment, comprising the operator services activities of Ferrotrans, Steeltrans New Forwarding Company and Sevtekhnotrans using open wagons. This approach is also consistent with the level at which goodwill is monitored by management for the purposes of the consolidated financial statements.

The recoverable amount of this group of cash generating units has been determined based on value-in-use calculations. These calculations require the use of estimates. These calculations are based on 7 year (2012: 5-year) pre-tax cash flow projections and all the assumptions in relation to growth rates are determined by reference to management's past experience and industry forecasts. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the operator's business in which the group of CGUs operate.

For projections prepared for open wagon/operator's services group of CGUs, terminal growth rate of 3% (2012: 3%) and the discount rate of 14.0% (2012: 17.82%) have been applied. The key assumptions are transportation volumes and prices per trip. The projected volumes reflect past experience as well as management's estimates. The transportation prices are estimated in accordance with past performance of the Group and management's expectations of market development. The terminal growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to the relevant group of CGUs.

The recoverable amount of the Russian open wagon/operator's services group of CGUs calculated based on value-in-use exceeds the carrying amount of the investments in subsidiaries operating in this group of CGUs. Management believes that any reasonably possible change in the key assumptions on which these units' recoverable amounts is based would not cause carrying amounts of these units to exceed their recoverable amounts.

(b) Critical judgements in the application of the Company's accounting policies

1. 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 gains on transactions with 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.

During the years ended 31 December 2013 and 2012, the following transactions were entered into with subsidiaries:

(i) Acquisition of LLC Ferrotrans from New Forwarding Company

On 25 July 2012, the Company entered into an agreement for the acquisition of 100% shareholding in LLC Ferrotrans from OJSC New Forwarding Company for a total consideration of RUB19,135,219 thousand (US$580,458 thousand). In accordance with the accounting policy of the Company, the investment in LLC Ferrotrans was recognised at the fair value of US$526,493 thousand. The basis of this fair value has been the transaction price at which New Forwarding Company had acquired LLC Ferrotrans from Metalloinvest Group in May 2012. The difference between the fair value of the consideration payable to New Forwarding Company and the fair value of the shares in LLC Ferrortrans was recognised as a capital contribution in New Forwarding Company as this amount was considered to be contributed by the Company to New Forwarding Company in its capacity as shareholder of New Forwarding Company.

The fair value to the consideration payable to New Forwarding Company in relation to the acquisition of shares of LLC Ferrotrans has been estimated at an effective interest rate of 10.27%, by reference to the effective interest rate of the bond issue of New Forwarding Company issued in March 2012.

Notes to the financial statements continued

In November 2012, the Company agreed with New Forwarding Company to extend the settlement terms of the deferred consideration payable to New Forwarding Company as a result of which the Company realised a gain on re-measurement of the deferred consideration liability of US$3,755 thousand. This gain has been recognised in finance costs in accordance with the Company's accounting policy and in accordance with IAS39.

In May 2013, the Company agreed with New Forwarding Company to extend the settlement terms of the deferred consideration payable to New Forwarding Company for a year as a result of which the Company realised a gain on re-measurement of the deferred consideration liability of US$2,154 thousand. This gain has been recognised in finance costs in accordance with the Company's accounting policy and in accordance with IAS39.

The Company has assessed that the change in the settlement terms was not entered into by the Company in its capacity as equity owner of New Forwarding Company, but it was similar to a transaction with a third party, therefore, the gain has been recognised in finance costs. Had the transaction been considered as a transaction entered into by the Company in its capacity as equity owner, this gain would have been recognised in revenue as it would be similar to a dividend distribution by New Forwarding Company. Therefore, there would be no impact on the profit or loss of the Company.

(ii) Issue of guarantees in relation to obligations of subsidiaries

During the current and prior year the Company provided guarantees for obligations of its subsidiaries free of charge. The fair value of these guarantees was determined on the basis of probability of default and loss given default and was recognised as part of the cost of the investment in the respective subsidiaries as these transactions were considered to be entered into by the Company in its capacity as equity owners.

2. Determination of the acquisition date of acquisition of subsidiaries

   In July 2012, the Company signed an agreement for the acquisition of 100% shareholding in LLC Ferrotrans from its subsidiary, New Forwarding Company. The transfer of the share in LLC Ferrotrans to the Company was completed on 1 November 2012. The acquisition date was determined as 25 July 2012 when the agreement was signed and all conditions for the transaction were satisfied.

   The Company determines the acquisition date as the date on which the Company obtains control of the acquiree. On 18 December 2012, the Company has entered into agreement for the acquisition of 100 per cent interest in LLC MMK-Trans. Such agreement specified certain conditions that had to be met before the completion date, such as receipt of approvals for the acquisition from the regulatory authorities. The transaction was completed on 12 February 2013 and 100 per cent interest in LLC MMK-Trans was transferred to the Company on that date. The Company considers the conditions specified in the agreement as substantial and not merely procedural and as such the acquisition date was determined as 12 February 2013 when all such conditions were satisfied, the share in LLC MMK-Trans was transferred to the Company and the Company obtained control of the acquiree.

3. Initial recognition of related party transactions

   In the normal course of business, the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 22.

4. Impairment of loan receivable from subsidiary

   The Company has recognised an impairment loss on loans receivable from its Ukrainian subsidiary in the income statement amounting to US$5,424 thousand. This loss was not recognised as additional cost of the investment because the contractual reduction in the interest rate and the revision of the expected cash flows under the loan receivable were a result of the difficult economic situation in Ukraine. These facts suggested the existence of impairment indicators under IAS39 as opposed to the Company being considered to be acting in its capacity as equity owner of Ukrainian New Forwarding Company, therefore the impairment was recognised in profit or loss similar to a transaction with a third party. Had the transaction been considered as a transaction entered into by the Company in its capacity as equity owner, this loss would have been recognised in the cost of the investments in subsidiary.

5. REVENUE

	2013 US$'000	2012 US$'000
Interest on loans to related parties (Note 22)	**2,135**	7,132
Dividend income (Note 22)	**339,411**	137,879
Total	**341,546**	145,011

6. OTHER GAINS - NET

	2013 US$'000	2012 US$'000
Net foreign exchange transaction (losses)/gains on non-financing activities (Note 11)	**(22)**	71
Amortisation of financial guarantees (Note 22)	**863**	951
Other gains – net	**841**	1,022

7. EXPENSES BY NATURE

	2013 US$'000	2012 US$'000
Statutory auditor's remuneration for audit services	**444**	595
Audit fees charged by the Company's statutory audit fees- prior year underprovision	**28**	–
Advertising and marketing expenses	**124**	103
Office rent	**63**	59
Depreciation of property, plant and equipment (Note 13)	**15**	11
Employee benefit expense (Note 8)	**394**	398
Legal, consulting and other professional services[1]	**2,257**	2,115
Bank charges	**85**	37
Non-Executive Directors' fees (Note 22)	**311**	236
Travel expenses	**619**	750
Profit on sale of property, plant and equipment	**(1)**	–
Stock exchange and financial regulator fees	**371**	85
Taxes other than on income	**476**	–
Impairment charge for loans receivables from related parties (Note 22)	**5,424**	–
Other expenses	**320**	343
Total selling and marketing costs and administrative expenses	**10,932**	4,732

[1] Includes US$24 thousand for the year 2013 (US$nil thousand for the year 2012) in fees paid to the Company's statutory auditor for non-audit services.

8. EMPLOYEE BENEFIT EXPENSE

	2013 US$'000	2012 US$'000
Wages and salaries	**367**	372
Social security costs	**27**	26
Total employee benefit expense	**394**	398

Notes to the financial statements continued

9. FINANCE COSTS - NET

	2013 US$'000	2012 US$'000
Finance income:		
Interest on bank balances	**1**	2
Interest on bank deposits	**103**	1
Total interest income	**104**	3
Net foreign exchange transaction losses on cash and cash equivalents, loans and dividends receivable (Note 11)	**3,354**	3,758
Total finance income	**3,458**	3,761
Finance costs:		
Interest expense on borrowings from related parties (Note 22)	**(7,082)**	(8,242)
Interest expense on payables to related parties (Note 22)	**(12,215)**	–
Bank borrowings	**(10,395)**	–
Total interest expense	**(29,692)**	(8,242)
Gain on re-measurement of financial liability (Note 22)	**2,154**	3,755
Other finance costs on early repayment of bank borrowing (Note 20)	**(1,540)**	–
Net foreign exchange transaction gains/(losses) on financial liabilities (Note 11)	**2,479**	(96)
Total finance costs	**(26,596)**	(4,583)
Total finance costs – net	**(23,138)**	(822)

10. INCOME TAX EXPENSE

	2013 US$'000	2012 US$'000
Current tax:		
Withholding tax on dividends receivable	**12,920**	4,330
Corporation tax – current year	**–**	369
Special contribution for defence	**17**	–
Total tax expense	**12,937**	4,699

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

	2013 US$'000	2012 US$'000
Profit before tax	**308,317**	140,479
Tax calculated at the applicable tax rate	**38,540**	14,048
Tax effect of expenses not deductible for tax purposes	**3,011**	1,263
Tax effect of allowances and income not subject to tax	**(44,060)**	(14,942)
Foreign withholding tax on dividends receivable	**12,920**	4,330
Tax effect of tax losses for which no deferred tax was recognised	**2,509**	–
Special defence contribution	**17**	–
Tax charge	**12,937**	4,699

The Company is subject to income tax on taxable profits at the rate of 10% up to 31 December 2012, and at the rate of 12.5% as from 1 January 2013. As from tax year 2012 brought forward losses of only five years may be utilised. Up to 31 December 2008, under certain conditions interest may be subject to special contribution for defence at the rate of 10%. In such cases 50% of the same interest will be exempt from income tax thus having an effective tax rate burden of approximately 15%. From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and be subject only to special contribution for defence at the rate of 10%; increased to 15% as from 31 August 2011, and to 30% as from 29 April 2013. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% as from 1 January 2012; reduced to 17% as from 1 January 2014. In certain cases dividends received from 1 January 2012 onwards from other Cyprus tax resident companies may also be subject to special contribution for defence. Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

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.

At 31 December 2013, the Company has tax losses carried forward amounting US$20,054 thousand (2012:US$nil thousand) for which no deferred tax was recognised as profits for future periods against which these losses can be utilised cannot be estimated with sufficient reliability.

11. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2013 US$'000	2012 US$'000
Finance income/(costs) - net (Note 9)	**5,833**	3,662
Other gains/(losses) (Note 6)	**(22)**	71
Total foreign exchange gains/(losses)	**5,811**	3,733

12. DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2013.

Dividends paid in 2013 and 2012 relating to profits of 2012 and 2011, amounted to US$125,119 thousand (US$0.70 per share) and US$98,879 thousand (US$0.64 per share) respectively.

At the Annual General Meeting which will take place in 28 April 2014, a final dividend in respect of the profit for the year ended 31 December 2013 of 62 US cents per ordinary share, amounting to a total dividend of US$110,819,368 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 2014.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles US$'000	Total US$'000
At 1 January 2012		
Cost	58	58
Accumulated depreciation	(21)	(21)
Net book amount	37	37
Year ended 31 December 2012		
Depreciation charge	(11)	(11)
Closing net book amount	26	26
At 31 December 2012/1 January 2013		
Cost	58	58
Accumulated depreciation	(32)	(32)
Net book amount	26	26
Year ended 31 December 2013		
Additions	77	77
Disposals	(15)	(15)
Depreciation charge	(15)	(15)
Closing net book amount	73	73
At 31 December 2013		
Cost	90	90
Accumulated depreciation	(17)	(17)
Net book amount	73	73

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

	2013 US$'000	2012 US$'000
Net book amount	**15**	–
Gain on sale of property, plant and equipment (Note 7)	**(1)**	–
Consideration from sale of property, plant and equipment	**14**	–

Notes to the financial statements continued

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

	2013 US$'000	2012 US$'000
Cash consideration received within year	13	–
Foreign exchange gains/(losses)	1	–
Consideration from sale of property, plant and equipment	14	–

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2013 US$'000	2012 US$'000
At beginning of year	1,244,051	585,749
Acquisition of additional interest in subsidiaries	–	–
Contribution into the capital of subsidiary	–	47,630
Additions (Note 22)	251,317	526,493
Currency translation differences	(109,307)	84,179
At end of year	1,386,061	1,244,051

In July 2012, the Company has entered into the agreement for the acquisition of 100% interest in OOO Ferrotrans with OJSC New Forwarding Company (NFC) (Note 22). In accordance with the accounting policy of the Company, the cost of the acquisition was determined as the fair value of the share of OOO Ferrotrans at the time of the acquisition. The excess of the fair value of consideration transferred to NFC over the fair value of the share of OOO Ferrotrans was recognised as contribution into the capital of NFC. The Company has made a payment of US$400,000 thousand to NFC in July 2012 and the remaining balance is payable by May 2014.

On 18 December 2012 the Company had signed an agreement to acquire 100 per cent interest in OOO MMK-Trans. As at 31 December 2012 the acquisition was conditional upon certain events such as obtaining regulatory approvals for the transaction. As a security for the performance of its obligations under the acquisition agreement, on 19 December 2012 the Company has placed US$10,000 thousand into the escrow account. As at 31 December 2012, these funds were treated as restricted cash and were classified as a current asset based on the estimated remaining length of the restriction.

On 12 February 2013, the Company has completed the purchase of 100% of the share capital of OOO Steeltrans ("ST") (formerly OOO MMK-Trans), the freight rail transportation operator, for a total consideration of US$251,317 thousand. Steeltrans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal.

At the time of the acquisition of ST, the Company had entered into the call option agreement for the acquisition of 52.5 per cent of Amalfico Holdings Limited, incorporated in Cyprus, which in turn controls 97% of ZAO Ural Wagonrepair Company (UWC), incorporated in Russia a company offering railcar repair services. The remaining interest of 47.5 of Amalfico Holdings Limited is controlled by ST and formed part of the acquisition. The rights of this option were transferred to Steeltrans OOO during the year following which Steeltrans OOO entered into a share purchase agreement to acquire 52.5% economic interest in Amalfico on 30 November 2013. Following this agreement the Group controls 100% of the share capital of Amalfico Holdings Limited, which owns 97% of the share capital of ZAO Ural Wagonrepair Company (UWC).

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

Name	Status	Country of Incorporation	Principal activities	Effective % interest held 2013	2012
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	**100**	100
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	**100**	100
Ferrotrans, OOO	Subsidiary	Russia	Railway transportation	**100**	100
Steeltrans, OOO (formerly MMK-Trans, OOO)	Subsidiary	Russia	Railway transportation	**100**	–
Amalfico Holdings Limited	Subsidiary	Cyprus	Intermediary holding company	**100**	–
Ural Wagonrepair Company, ZAO	Subsidiary	Russia	Repair and maintenance of rolling stock	**97**	–
Ingulana Holdings Ltd	Subsidiary	Cyprus	Intermediary holding company	**60**	60
Ultracare Holdings Limited *(100% subsidiary of Ingulana Holdings Ltd)*	Subsidiary	Cyprus	Intermediary holding company	**60**	60
BaltTransServis, OOO *(100% subsidiary of Ultracare Holdings Ltd)*	Subsidiary	Russia	Railway transportation	**60**	60
RemTransServis, OOO *(99% subsidiary of BaltTransServis, OOO)*	Subsidiary	Russia	Repair and maintenance of rolling stock	**59.4**	59.4
Spacecom, AS	Subsidiary	Estonia	Operating lease of rolling stock and provision of forwarding services	**65.25**	65.25
Ekolinja Oy *(100% subsidiary of Spacecom, AS)*	Subsidiary	Finland	Operating sub-lease of rolling stock	**65.25**	65.25
AS Spacecom Trans	Subsidiary	Estonia	Operating lease of rolling-stock	**65**	65
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	**100**	100

The following amounts are included in the statement of cash flows in relation to acquisitions of subsidiaries:

	2013 US$'000	2012 US$'000
Acquisition of OOO Ferrotrans	**182,502**	400,000
Acquisition of OOO Steeltrans	**241,317**	–
Total cash outflow for the acquisition of subsidiaries	**423,819**	400,000
Advance payment for the acquisition of OOO Steeltrans	**–**	10,000

Notes to the financial statements continued

15. FINANCIAL INSTRUMENTS BY CATEGORY

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

31 December 2012	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Loans and other receivables[1]	45,842	**45,842**
Restricted cash	10,000	**10,000**
Cash and cash equivalents	91,472	**91,472**
Total assets	147,314	**147,314**

	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	194,027	–	**194,027**
Financial guarantees[2]	–	2,269	**2,269**
Total liabilities	194,027	2,269	**196,296**

31 December 2013	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Loans and other receivables[1]	32,571	**32,571**
Cash and cash equivalents	488	**488**
Total assets	33,059	**33,059**

	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	5,076	–	**5,076**
Borrowings	132,769	–	**132,769**
Financial guarantees[2]	–	1,264	**1,264**
Total liabilities	137,845	1,264	**139,109**

[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:

	2013 US$'000	2012 US$'000
Counterparties without external credit rating		
Group 1	–	45,842
Group 2	166	–
	166	45,842

Cash at bank and short-term bank deposits Agency	Rating	2013 US$'000	2012 US$'000
Moody's*	A1	1	–
Moody's*	Aa3	97	99
Moody's*	A2	366	28,133
Moody's*	Baa1	19	63,184
Moody's*	B3	–	56
Moody's*	Caa3	5	–
Total cash at bank and short-term bank deposits		488	91,472

*International rating agency Moody's Investors Service.

Group 1 – Related party loans and other receivables from related parties with no default in the past

Group 2 – Other receivables with no default in the past

In additional to the above, as at 31 December 2012, the Company held as 'restricted cash' US$10,000 thousand with financial institution with A3 rating maintained by Moody's Investor Service.

17. LOANS AND OTHER RECEIVABLES

	2013 US$'000	2012 US$'000
Loans to related parties (Note 22)	37,829	45,842
Less: Provision for impairment of loans to related parties	(5,424)	–
Loans to related parties – net (Note 22)	32,405	45,842
Other receivables – third parties	166	–
Prepayments – third parties	43	9
Prepayments – related parties (Note 22)	–	7
Total loans and other receivables	32,614	45,858
Less non-current portion:		
Loans to related parties (Note 22)	35,118	40,151
Less: Provision for impairment of loans to related parties	(5,424)	–
Non-current portion of loans to related parties – net (Note 22)	29,694	40,151
Total non-current portion	29,694	40,151
Current portion	2,920	5,707

The contractual average interest rate on loans receivable from related parties was 5.0% at 31 December 2013 (31 December 2012: 8.0%). Non-current receivables mature by 31 December 2018. The effective interest rate on loans receivables from related parties was 8.11% (2012: 8.11%).

The fair values of non-current loans are as follows:

	2013 US$'000	2012 US$'000
Financial assets		
Loans to related parties	26,977	36,644
Total financial assets	26,977	36,644

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

The fair values of loans from related parties are based on cash flows discounted using a rate of 9.7% and are within level 2 of the fair value hierarchy.

Notes to the financial statements continued

Loans to related parties amounting to US$37,829 thousand as of 31 December 2013, were partially impaired and provided for (2012: US$ Nil). The impaired loan receivables mainly relate to loan to Ukrainian New Forwarding Company due to difficult economic situation in Ukraine.

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

	2013 US$'000	2012 US$'000
US Dollar	32,570	45,842
Russian Rouble	10	7
Euro	34	9
Total financial assets	32,614	48,858

18. CASH AND CASH EQUIVALENTS

	2013 US$'000	2012 US$'000
Cash at bank	488	30,448
Short term bank deposits	–	61,024
Total cash and cash equivalents	488	91,472
Restricted cash	–	10,000
	488	101,472

The effective interest rate on short term bank deposits in 2012 was 3.61% and these deposits have a maturity of 18 days.

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

	2013 US$'000	2012 US$'000
Cash and cash equivalents	488	91,472
	488	91,472

Cash and cash equivalents are denominated in the following currencies:

	2013 US$'000	2012 US$'000
US Dollar	455	56,358
Russian Rouble	28	35,110
Euro	5	4
Total cash and cash equivalents	488	91,472

As at 31 December 2012, US$10,000 thousand (denominated in US Dollars) was held on escrow account to secure the obligations of the Company under the agreement for acquisition of 100 per cent interest in OOO MMK-Trans (Note 14). These funds were treated as 'restricted cash' as of 31 December 2012.

19. SHARE CAPITAL, SHARE PREMIUM AND TREASURY SHARES

	Number of shares	Share capital US$'000	Share premium US$'000	Total US$'000
At 1 January 2012	158,135,533	15,814	621,227	637,041
Issue of new shares	20,605,383	2,061	337,928	339,989
Incremental costs directly attributable to the issue of new shares	–	–	(9,684)	(9,684)
At 31 December 2012/1 January 2013/31 December 2013	178,740,916	17,875	949,471	967,346

The total authorised number of ordinary shares at 31 December 2013 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2012: 233,918,128 shares with a par value of US$0.10 per share). All issued shares are fully paid.

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.

Following the offering on 12 July 2012 of Global Depository Receipts, on 17 July 2012, the Company has issued 20,605,383 new ordinary shares out of the authorized share capital as fully paid at a price of US$16.50 (including a premium of US$16.40 per share). In the context of the offering, the Company has sold the 3,637,117 ordinary shares held in treasury at the price of US$16.50 per share for the total value of US$60,012,430.

The expenses directly attributable to the new shares issued amounting to US$9,684 thousand were capitalised against share premium. Included in these expenses is an amount of US$57 thousand for assurance services to the statutory audit firm of the Company.

20. BORROWINGS

	2013 US$'000	2012 US$'000
Current		
Bank borrowings	–	–
Loans from related parties (Note 22)	498	–
Total current borrowings	498	–
Non-current		
Bank borrowings	–	–
Loans from related parties (Note 22)	132,271	–
Total non-current borrowings	132,271	–
Total borrowings	132,769	–
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	–	–
Between 2 and 5 years	132,271	–
Over 5 years	–	–
	132,271	–

During the year the Company also obtained a bank loan of US$190,000 thousand to finance the acquisition of OOO Steeltrans. The loan bear interest at 10.5% and was repayable by 21 January 2016. The loan was early repaid during the year and the Company incurred an early repayment fee of US$1,540 thousand in this respect (Note 9).

Rouble-denominated loans advanced from related parties bear interest at MosPrime + 3.3% (MosPrime (Moscow Prime Offered Rate) is the National Foreign Exchange Association fixing of reference rate based on the offered rates of Russian Rouble deposits) and US Dollar denominated loans advanced from related parties bear interest at 4%.

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

	2013 US$'000	2012 US$'000
6 months or less	97,704	–
6 to 12 months	–	–
1 to 5 years	35,065	–
	132,769	–

The carrying amount of borrowings approximates their fair value. All of the loans are unsecured.

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

	2013 %	2012 %
Bank borrowings	–	–
Loans from related parties	8.46	–

Notes to the financial statements continued

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

	2013 US$'000	2012 US$'000
US Dollar	**35,065**	–
Russian Rouble	**97,704**	–
Total borrowings	**132,769**	–

21. PAYABLES AND ACCRUED EXPENSES

	2013 US$'000	2012 US$'000
Current		
Provision for issued guarantees (Note 22)	**1,264**	2,269
Payables to related party (Note 22)	**4,611**	193,529
Other payables to third parties	**62**	273
VAT payable	**31**	112
Accrued expenses	**403**	225
Total current trade and other payables	**6,371**	196,408

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

22. RELATED PARTY TRANSACTIONS

Until July 2012, the Group was controlled by Transportation Investments Holding Limited ("TIHL") incorporated in Cyprus, which owned 50.1% of the Company's shares. Envesta Investments Limited ("EIL") owned 12.3% (including the holding of GDRs of the Company) of the Company's shares until July 2012. Until July 2012, the ultimate controlling party of the Group was Mirbay International Inc., which is registered in Bahamas.

Following the issue and sale of shares by the Company and sale of shares by the existing shareholders in July 2012, the Group no longer has an ultimate controlling party.

In March 2013, TIHL transferred the shares it held in the Company to Maple Valley Investments, Marigold Investments and Onyx Investments in equal proportions and since March 2013 is no longer a related party to the Company.

Following the above events, shares held by its major shareholders, Maple Valley Investments, Marigold Investments and Onyx Investments as at 31 December 2013 were 11.5% each. EIL together with their affiliated entities held 10.8% as at 31 December 2013. 54.5% of the shares represent the free market-float and are held by external investors through the Global Depositary Receipts. The remaining 0.2% of the shares of the Company are controlled by Directors and management of the Group.

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.

For the purposes of these financial statements TIHL is considered as the Parent of the Group until July 2012 and an entity exercising significant influence over the Group thereafter until March 2013. From that date onwards TIHL is not considered related to the Group.

The following transactions were carried out with related parties:

(a) Loans to related parties

	2013 US$'000	2012 US$'000
Loans to subsidiaries:		
At beginning of year	**45,842**	112,418
Loan advances	**10,351**	85,562
Interest charged (Note 5)	**2,135**	7,132
Loan repaid during the year	**(14,410)**	(157,136)
Interest repaid during the year	**(6,078)**	(6,658)
Impairment charge (Note 7)	**(5,424)**	–
Net foreign exchange	**(11)**	4,524
At end of year	**32,405**	45,842
Consists of:		
Non-current portion	**29,694**	40,151
Current portion	**2,711**	5,691
At end of year	**32,405**	45,842

The balances at the year end carry a contractual rate of 5.0% (2011: 8.0%) per annum and are payable by December 2018. During 2013 the coupon interest rate of 8.0% was contractually reduced to 5.0%.

(b) Loans from related parties

	2013 US$'000	2012 US$'000
Loans from subsidiaries:		
At beginning of year	**–**	–
Loan advances	**136,658**	90
Interest charged (Note 9)	**7,082**	–
Interest repaid during the year	**(6,559)**	–
Loan repaid during the year	**(575)**	(90)
Net foreign exchange difference	**(3,837)**	–
At end of year	**132,769**	–

As at 31 December 2013 loans from subsidiaries carry a weighted average interest rate of 8.46% and are payable by December 2018.

In the year 2012 loans were provided for a period of up to seven months at the interest rate of 0.5% and were repaid in full by 31 December 2012.

(c) Dividend income from related parties

	2013 US$'000	2012 US$'000
Dividend income from related parties:		
Subsidiaries	339,411	137,879
Total	339,411	137,879

Notes to the financial statements continued

(d) Year end balances with related parties

	2013 US$'000	2012 US$'000
Receivables from and prepayments to related parties:		
Companies under control of TIHL – prepayments	–	7
Total receivables from and prepayments to related parties (Note 17)	–	7
Receivables from related parties:		
Current	–	7
Total receivables from related parties (Note 17)	–	7

	2013 US$'000	2012 US$'000
Payables to related parties:		
Subsidiary	**4,551**	193,529
Directors	**60**	–
Total payables to related parties (Note 21)	**4,611**	193,529
Payables to related parties:		
Current	**4,611**	193,529
Total payables to related parties (Note 21)	**4,611**	193,529

Payables to subsidiary represents the deferred consideration payable by the Company to OJSC New Forwarding Company for the acquisition of LLC Ferrotrans completed in November 2012 (Note 14). The outstanding amount is denominated in Russian rubles, bears an interest rate of 5.5% as at 31 December 2012 and was payable by 31 May 2013. Its repayment was extended to 31 May 2014 during the year. A gain of US$2,154 thousand (US$3,755 thousand) was recognized in this respect.

(e) Interest income and expenses

	2013 US$'000	2012 US$'000
Interest income:		
Subsidiaries	**2,135**	7,132
Total interest income	**2,135**	7,132
Impairment loss of loans to subsidiaries (Notes 7 and 17)	**5,424**	–
Other interest expense:		
Subsidiaries – deferred consideration for the acquisition of subsidiary	**(12,215)**	(8,242)
Subsidiaries – borrowings	**(7,082)**	–
Gain on re-measurement of financial liability		
Subsidiaries	**2,154**	3,755
Total interest expense	**(19,294)**	(4,487)

Interest expense to subsidiary includes the interest accrued on deferred consideration payable to OJSC New Forwarding Company for the acquisition of OOO Ferrotrans and consists of US$6,452 thousand (US$1,776 thousand for the year 2012) of interest accrued on the outstanding amount in accordance with the terms of the agreement at the rate of 2/3 of the refinancing rate of the Central Bank of Russia (currently 8.25%) and US$5,760 thousand (US$6,466 thousand for the year 2012) of the unwinding of discounting effect applied to the deferred consideration at the time of the acquisition.

In November 2012, the Company has changed the settlement terms for the deferred consideration payable to New Forwarding Company. This resulted in the gain on re-measurement of such financial liability of US$3,755 thousand (Note 9).

In May 2013, the Company has extended the settlement terms for the deferred consideration payable to New Forwarding Company. This resulted in the gain on re-measurement of such financial liability of US$2,154 thousand (Note 9).

(f) Purchases of services

	2013 US$'000	2012 US$'000
Purchases of services from related parties:		
Companies under control of TIHL	7	60
Total	7	60

(g) Directors' remuneration

	2013 US$'000	2012 US$'000
Directors' fees	311	236
Emoluments in their executive capacity	143	155
Total directors' remuneration	454	391

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

(h) Guarantees in favour of subsidiaries

Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Group has guaranteed the following obligations:

	2013 US$000	2012 US$000
Subsidiaries[1]	935,846	892,931
Total guaranteed obligations	935,846	892,931

[1] Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2013 and 2012.

During the years ended 31 December 2013 and 31 December 2012 the Company has acted as the guarantor for the obligation of its subsidiary for the unsecured non-convertible bonds issues and loan agreements with financial institutions and third parties. The fair values of such guarantees are amortised through the income statement (2013: US$863 thousand; 2012: US$951 thousand). As at 31 December 2013 the unamortised balance of the guarantees is US$1,264 thousand (2012: US$2,269 thousand) and is included in other payables.

(i) Acquisition of subsidiary

On 25 July 2012, the Company has entered into the agreement for the acquisition from its subsidiary, OJSC New Forwarding Company, of 100% shareholding in LLC Ferrotrans, Russia for a total consideration of RUB19,135,219 thousand (US$580,458 thousand). In accordance with the terms of the agreement, a payment of US$400,000 thousand was made by the Company in July 2012 with the remaining balance payable by 31 May 2014. Interest of 2/3 of the refinancing rate of the Central Bank of Russia (currently 8.25%) is accrued on the outstanding amount and is payable at the time of settlement of the outstanding balance of the purchase price.

In November 2012, the Company has changed the settlement terms for the deferred consideration payable to New Forwarding Company. This resulted in the gain on re-measurement of such financial liability of US$3,755 thousand (Note 9).

In May 2013, the Company has extended the settlement terms for the deferred consideration payable to New Forwarding Company. This resulted in the gain on re-measurement of such financial liability of US$2,154 thousand (Note 9).

The core business of LLC Ferrotrans is to manage rail logistics of Metalloinvest, a leading global iron ore and hot briquetted iron producer based in Russia, using its owned and leased-in railcar fleet as well as the fleet engaged from third-party operators.

In accordance with the accounting policies of the Company, the investment in LLC Ferrotrans was recognised at the fair value of US$526,493 thousand. The excess of the fair value of the transaction price payable for the acquisition over the fair value of the investment in the amount of US$47,630 thousand was recognised as a capital contribution in OJSC New Forwarding Company.

Notes to the financial statements continued

23. CONTINGENCIES

Operating environment of the Company

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

Russian Federation
The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject varying interpretation.

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

Ukraine
The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. The political system of Ukraine experienced severe instability with a number of protests against the Government's actions in late 2013 and street violence in January - March 2014. At the end of January 2014, the President of Ukraine accepted the resignation of Ukraine's Prime Minister. Following this, the Russian Government suspended the support of the Ukrainian Government and Moody's Investors Service downgraded Ukraine's government bond rating to Caa2 from Caa1 with a negative outlook. To stabilise the deteriorating political situation, the Parliament voted return of the 2004 Constitution and dismissed the President. On 26 February, the newly formed Parliament majority coalition appointed a Prime Minister and the Government. Since the beginning of 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The new Government called for immediate dialogue with the International Monetary Fund in order provide financing and avoid possible default. On 1 March, the Russian parliament granted approval for the use of armed forces in Ukraine. Russian troops are believed to be occupying government offices and other locations in Crimea. The Ukrainian armed forces were put on full alert. The government in Crim ea held a referendum on joining the Russian Federation on 16 March, following which the region of Crimea and the Russian Federation announced the joining of Crimea to Russia.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have further severe effects on the Ukrainian economy and the operations of the Company's Ukrainian business.

Management assessed possible impairment of the Company's loans receivables by its Ukrainian subsidiary by considering the current economic environment and outlook. Refer to Note 17. The future economic and regulatory situation may differ from management's current expectations.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects 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.

24. EVENTS AFTER THE BALANCE SHEET DATE

In March 2014 the Company has acquired 3% of ZAO Ural Wagonrepair Company from a third party for a RUB 2,430 thousand.

As at 27 March 2014, the Russian Rouble had depreciated by 8.3% against the US Dollar, compared to 31 December 2013.

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

Independent Auditor's Report on pages 8 to 9.

Shareholder structure

The issued share capital of Globaltrans consists of 178,740,916 ordinary shares with a nominal value of US$0.10 each. Global Depositary Receipts (GDRs) of Globaltrans representing one ordinary share each are listed and traded on the Main Market of the London Stock Exchange under the ticker GLTR. The free float of Globaltrans amounts to approximately 54.5% of the issued share capital. The Bank of New York Mellon is the depositary bank for the GDR programme of Globaltrans.

Shareholder structure[1]	
Maple Valley Investments[2]	11.5%
Onyx Investments[2]	11.5%
Marigold Investments[2]	11.5%
Litten Investments[3]	6.3%
Goldriver Resources[4]	4.5%
Other entities controlled by Directors and management of Globaltrans	0.2%
Free float	54.5%

1. Shareholder structure as of January 2014.

2. Konstantin Nikolaev, Nikita Mishin and Andrey Filatov are beneficiaries with regard to 11.5% of Globaltrans' ordinary share capital each through their respective SPVs (Maple Valley Investments, Onyx Investments and Marigold Investments). These individuals are co-founders of Globaltrans as well as founders and strategic shareholders of Global Ports Investments Plc, Russia's leading container port operator which is also listed on the London Stock Exchange.

3. Beneficially owned by Alexander Eliseev, Non-Executive Director and co-founder of Globaltrans.

4. Beneficially owned by Sergey Maltsev, Chief Executive Officer, Executive Director and co-founder of Globaltrans.

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