Globaltrans
Russia's leading private freight rail group
Investing
in the future
Annual Report 2012

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

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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 2012 are included in Appendix 1 "Directors' report and consolidated financial statements for the year ended 31 December 2012" 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 58-59 of this Annual Report.

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

Market Share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation ("Rosstat") as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume of respective cargoes.

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

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

For a detailed description of the presentation of financial and other information, please see pages 60-61 of this Annual Report.

2012 highlights: creating a stronger, more efficient business

2012 has been a year of significant business growth and transformational strategic acquisitions.

Freight Rail Turnover
increased 25% year on year to 137.8 billion tonnes-km in 2012

Adjusted EBITDA
increased 30% year on year to USD 658.2 million* in 2012

Adjusted EBITDA Margin
increased to 50%* in 2012 (2011: 44%*)

38%

Empty Run Ratio for gondola cars
improved to 38% in 2012 (2011: 41%)

7%

Market Share
increased to 7% in 2012 (2011: 6%)

+47%

Owned Fleet
increased 47% year on year to 58,501 units at 2012 end

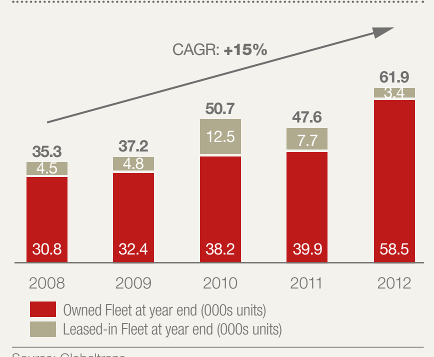
Delivering sustainable growth throughout the economic cycle

Globaltrans' strategy is to deliver sustainable long-term growth throughout the economic cycle.

We have strong credentials as a fast growing company with a proven track record of producing robust results and delivering on promises.

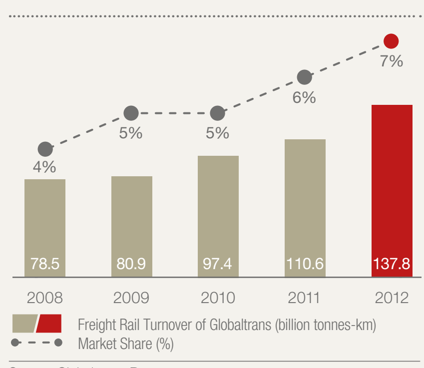
In the last five years Globaltrans has grown rapidly and it is now one of Russia's leading private freight rail groups.

2x increase in Owned Fleet



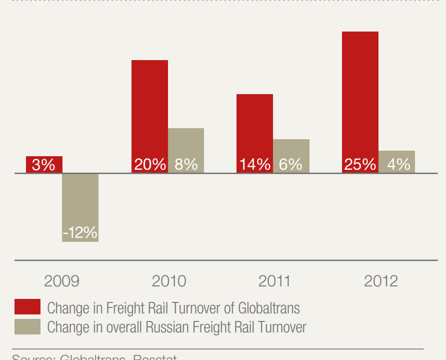
Source: Globaltrans

2x increase in Market Share



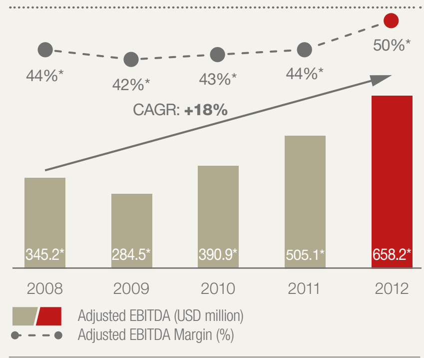
Source: Globaltrans, Rosstat

Consistent market outperformance



Source: Globaltrans, Rosstat

Consistently high stable margins



Source: Globaltrans

Who we are

What we do

Globaltrans is a leading private freight rail transportation group servicing businesses across the world's largest country

Key data

61,935

Total Fleet
Globaltrans' Total Fleet included 61,935 units as at end 2012

137.8bn

Freight Rail Turnover
Globaltrans Freight Rail Turnover of 137.8 billionn tonnes-km in 2012

$658.2m*

Adjusted EBITDA
Globaltrans achieved USD 658.2 million* of Adjusted EBITDA in 2012

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

Globaltrans is a leading private freight rail transportation group with operations in Russia, the CIS and the Baltics. We are a pure play freight rail operator with advanced logistics, high fleet utilisation and low Empty Runs.

Large, modern fleet

Globaltrans has a Total Fleet of about 65,000 units of rolling stock (including the fleet of Steeltrans, renamed from MMK-Trans). The Group has a one of the most modern fleets in industry with the average age of about seven years[1]. Universal gondola cars and rail tank cars constitute the backbone of the Group's fleet. About 94% of the Total Fleet is owned by the Group.

Established blue-chip client base

Our clients include many of Russia's leading blue chip companies, including major industrial groups in metals and mining and oil products and oil industries.

Business model balances growth with resilience

We have strong credentials as a fast growing company focused on opportunistic return 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 as well as long-term service contracts with large metallurgical clients.

Profitable and cash generative

Consistently high, stable margins with Adjusted EBITDA Margin of 50%* in 2012. Dividend policy of distributing at least 30% of the imputed consolidated net profit.

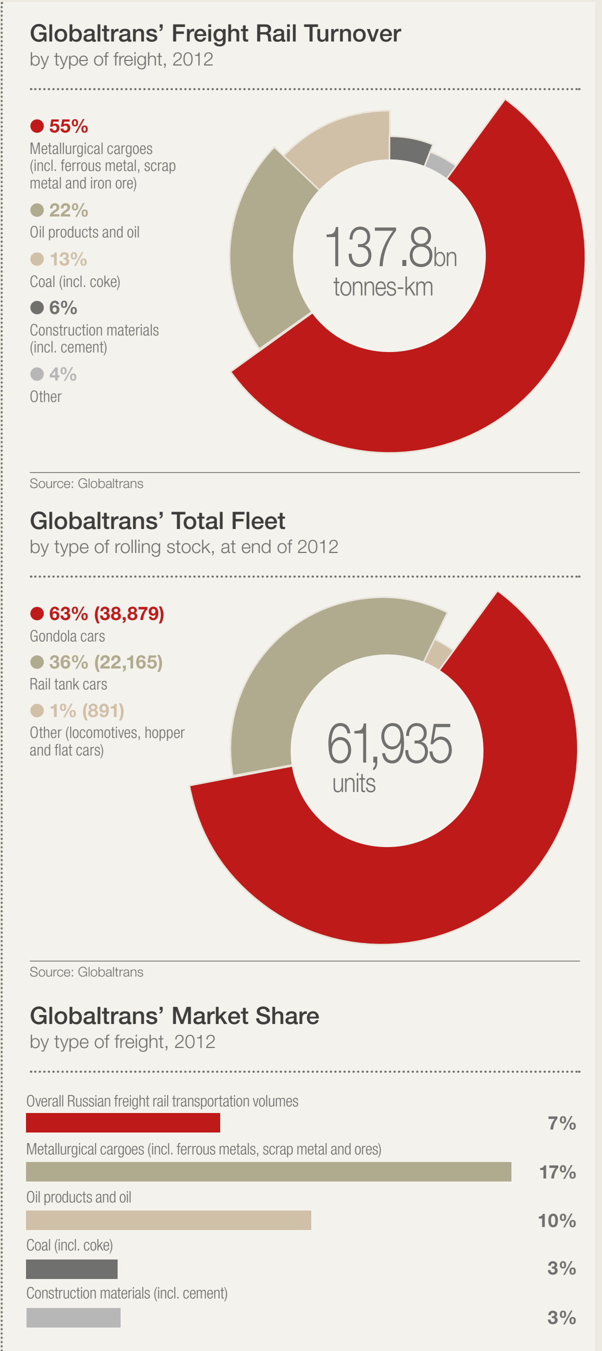
Listed on the London Stock Exchange Main Market

Globaltrans was the first freight rail group with operations focusing on Russia to go public on an international stock exchange. Global Depositary Receipts have been listed since 2008. Free float exceeds 50%.

1. Average age of the Owned Fleet as of the end of 2012.

7%

Market Share
Globaltrans had a 7% Market Share of overall Russian freight rail volumes in 2012



What makes us different

Globaltrans competitive advantage

Innovation:

Our logistics technology and expertise allow us to create greater efficiencies. Globaltrans has an established reputation as an industry innovator, and has been at the forefront of the drive to liberalise and modernise the Russian freight rail industry. One of the cornerstones of our business model are our advanced destination and traffic management systems.

Partnerships:

We work in an integrated way with our largest customers, creating strong long-term relationships. We seek to establish long-term partnerships with our clients and in many cases we have become an integrated part of their logistics chain. Currently, Globaltrans has long-term service contracts with Metalloinvest and MMK for rail transportation of the majority of their freight rail transportation needs.

Performance:

Globaltrans is a fast growing company with a proven track record of consistent delivery through every stage of the economic cycle. In the period from 2008 to 2012 the Group's Adjusted EBITDA grew at a CAGR of 18%.

Independence:

Globaltrans is one of the leading independent freight rail transportation groups in Russia. Our independence is underpinned by our entrepreneurial heritage, which has enabled us to seize opportunities in a rapidly changing market and remains at the heart of the business. Our history is an example of entrepreneurial success in building a profitable and fast growing business from scratch.

How we operate our rolling stock fleet

Advanced logistics and route management enable high fleet utilisation as well as improved service quality

Globaltrans is a market leader in providing innovative rail freight solutions

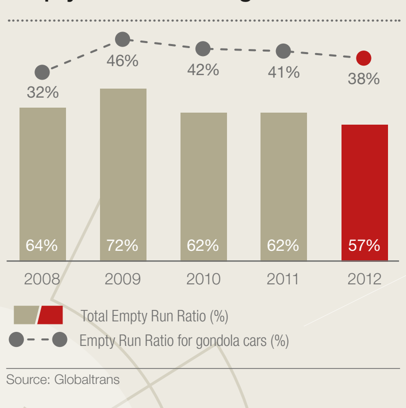
Effective route management is key to our business. Logistics plays a central role and our expertise in this area is fundamental to our success. It ensures we continue to provide best-in-class service to our customers and helps to drive greater efficiency and productivity through the Group.

Matching routes and destinations creates more efficient, streamlined “route loops” minimising Empty Runs. It means that more cargoes can be carried on more journey legs, thereby driving better revenue and cost performance. Empty Run Costs are the largest contributor to Operating Cash Costs of the Group.

Use of block trains improves delivery times

Use of block trains is another important element of efficient fleet management – the introduction of cargo-specific/client-specific block trains, all bound for the same direction, means more cost and time-effective transportation solution for both the customer and Globaltrans. By assembling complete trains composed only of our own rolling stock bound to one destination, we dispense with the time-consuming need to couple and decouple individual railcars at multiple interim stations. This means we can greatly increase the average daily distance that our railcars travel, thereby improving delivery times and rolling stock utilisation.

Empty Run Ratio for gondola cars



Source: Globaltrans

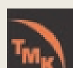
Empty Run Ratio
for gondola cars improved to 38% in 2012 (2011: 41%)

Effective combination of cargo bases enables us to create unique long-term advantage in logistics

The major industrial groups are increasingly adopting a "one-stop shop" approach, seeking a dedicated specialist like Globaltrans who can manage the majority of their rail transportation requirements. This approach reduces their shunting costs and improves the speed and reliability of cargo off-take.

Globaltrans has three-year and five-year service contracts with Metalloinvest and MMK respectively providing for a unique lasting advantage in logistics. Sizeable long-term transportation contracts with interconnected plants (ores, metallurgy, coal) are the best platform for optimising gondola logistics.

Our gondola car clients



Illustrative routes

Sverdlovsk
Vorontsovka
Kiltchug
Moscow
Bazaikha
Metallurgicheskaya
ChMK
Belovo
Mikhailovsky Rudnik
MGOK
Magnitogorsk
MMK
Novokuznetsk-Severny
ZSMK
Novorossiysk
Export
Zolsky
Vladivostok
Export
Novy Port
Export
Kamennogorsk
Novolesnaya
Export
Trubnaya

Empty Runs
Coal
Metals
Iron ore
Pipelines
Crushed stone

Cargo base of MMK (Steeltrans)
Cargo base of Metalloinvest (Ferrotrans)
Current clients/destinations of Globaltrans

Strategic review

Chairman's statement

During 2012 we delivered an unprecedented transformation of our business

This has been another outstanding year of progress for Globaltrans, with the Group again proving its growth credentials and enhancing its reputation as an innovator in the industry. During 2012 we delivered an unprecedented transformation in the scale of our business, continued our outperformance of Russia's rail freight market, and increased our Market Share. Alongside our expansion we secured important contracts underpinning our capacity utilisation going forward. These achievements were matched by a robust financial performance with Adjusted Revenue and Adjusted EBITDA both strongly ahead, accompanied by a continued focus on operational efficiency.

Strong performance

Globaltrans' performance in 2012 was a source of great pride. The Group's Freight Rail Turnover increased 25% year on year driven primarily by fleet expansion. As a result, we delivered another year of strong financial performance with the Group's Adjusted EBITDA rising 30% year on year to USD 658.2 million*.

Despite ongoing issues in the broader global economy, the business climate in Russia continued to be positive in 2012, which was reflected in GDP and industrial production with 3% growth in both. As a result, our sector continued to benefit with overall industry Freight Rail Turnover surpassing the pre-crisis levels of 2007.

Leading the way in consolidation

In 2011 the industry was primarily focused on the impact of further deregulation, specifically the privatisation of RZD's freight rail assets, whilst the main focal point in 2012 was the accelerating drive towards consolidation across the sector. I am pleased to say that Globaltrans led this consolidation in 2012 and introduced a new model of cooperation with large cargo owners, reinforcing its reputation as an industry innovator, and demonstrating once more the Group's entrepreneurial heritage and its ability to seize opportunities that grow and strengthen the business.

Of the three major rail operations that emerged as acquisition targets during 2012, Globaltrans successfully obtained two, first acquiring Metalloinvesttrans (renamed to Ferrotrans), the former captive rail business of Metalloinvest, a leading global iron ore and HBI producer in Russia, in May 2012. This acquisition was followed in December by an agreement to acquire MMK-Trans (completed in February 2013; renamed to Steeltrans) the captive freight rail operator of MMK, the major Russian steelmaker.

The Metalloinvest transaction broke new ground in our industry as the first large scale M&A deal between a private rail freight group and a major natural resources company in Russia which included a long-term cargo transportation contract.

The Group's willingness and ability to accelerate growth through carefully selected value-enhancing acquisitions remain key differentiators and are a major factor in providing outstanding returns to our shareholders.

Globaltrans delivers complex, integrated freight services that save our customers both time and money. We work with over 650 customers across Russia, the

Alexander Eliseev,
Chairman of the Board

Mr. Eliseev is a co-founder of Globaltrans and has served as Chairman of the Board of Directors since 2008. From March 2013 he serves as a Non-Executive Director of the Board. He has held senior management positions, largely in the rail sector, for the past 15 years.

CIS and Baltic countries. As industry consolidation accelerates we see many more opportunities to deepen our existing relationships and develop new ones as customers increasingly look to secure their supply chains and work with dedicated specialists like ourselves. In this respect, the fact that we are independent of any major industrial group and able to offer a genuine "turnkey" solution to our customers is a source of competitive advantage that few of our peer group can offer.

Balancing growth with resilience

As we have said before, our business model seeks to balance growth with resilience against downturns in the market. We remain committed to this model and to ensuring that we retain an appropriate balance between universal gondola cars, which enable migration between various bulk cargo segments, and rail tank cars, which are exposed to the most stable market segment: the oil products and oil sector. The acquisitions of Ferrotrans and Steeltrans are also excellent examples of another aspect of what makes Globaltrans different: our focus on developing long-term trusted partnerships with our customers. As well as acquiring two high quality railcar fleets, we secured contracts to service the freight rail transportation needs of both Metalloinvest and MMK for three and five years respectively.

Corporate governance

In my role as Chairman, I have been responsible for making sure that Globaltrans is governed and run with transparency and openness. The Board is committed to ensuring this continues

With an Adjusted EBITDA CAGR (2008-2012) of 18%, Globaltrans has consistently demonstrated the ability to produce sustainable long-term growth throughout the economic cycle, identify new innovative opportunities for growth and generate solid shareholder returns

and, in 2012, Globaltrans reached an important milestone when the Group's "free float" exceeded 50%, meaning that over half of the Company's shares are now freely tradable and not in the hands of the founders or related shareholders. This is a very positive development as it means that the Company can genuinely be classed as "public", which should further enhance our profile with international investors. However, it also puts the onus squarely on the Board to ensure that it continues to govern the Group effectively.

New enlarged Board and appointment of Independent Director as Chairman of the Board

Given the increased scale and complexity of the Group and our commitment to maintaining high corporate governance standards, some important steps were taken in 2013. At the Annual General Meeting on 19 April 2013, shareholders approved a new enlarged Board. This new Board comprises 15 members, including four Independent Directors. The enlarged Board and the doubling of the number of Independent Directors reflects the increased business activity of the Group and its future expansion plans in the consolidating Russian freight rail market along with the additional demands that this places on the Directors in terms of skills and responsibility. The new Board members bring with them expertise and experience in the areas of international commodity markets, oil products rail transportation and rolling stock procurement as well as financial management.

In addition, in March 2013, the Board decided that, given the Group's "free float" exceeded 50%, it was the right time for

the role of Chairman to be held by an Independent Director, further strengthening the Company's corporate governance practices. To that end, the Board named Mr. Michael Zampelas, the Senior Independent Non-Executive Director, as the Chairman of the Board. Mr. Zampelas has been an Independent Director of the Globaltrans Board since 2008 and has served as Chairman of the Audit Committee and a member of both the Remuneration and Nomination Committees. I have no doubt he will make an excellent Chairman. While I am stepping down from the role, I will continue to serve as a Non-Executive Director of the Board and a member of the Remuneration Committee and as before will remain actively involved in the development of the Group.

Dividend

The Board is committed to growing the dividend as we recognise its importance to the investment case for many shareholders. Shareholders at the Annual General Meeting on 19 April 2013 approved an increased dividend of USD 125.1 million (70 US cents per ordinary share/GDR) for 2012 compared to the USD 98.9 million (64 US cents per ordinary share/GDR) paid for 2011. That equates to a Dividend Pay-out Ratio of 48%* compared to 37%* in the previous year.

The Board's decision to increase the dividend reflects not only the good underlying performance of our operations in 2012 but also its confidence in the Group's future prospects, which is supported by a robust balance sheet and strong cash flows.

Our people

On behalf of the Board I would like to extend our sincere thanks to all our employees and colleagues for their invaluable contribution to this year's outstanding outcome. It has been a demanding year requiring the seamless integration of a major acquisition whilst never losing focus on the need to provide best-in-class service to our customers. That we succeeded in achieving such an excellent result is testament to their dedication, professionalism, and hard work.

Conclusion

With an Adjusted EBITDA CAGR (2008-2012) of 18%, Globaltrans has consistently demonstrated the ability to produce sustainable long-term growth throughout the economic cycle, identify new innovative opportunities for growth, and generate solid shareholder returns. Sustained value creation for our shareholders remains our key priority and I believe our results for 2012 show that in this respect the Group remains firmly on course. Given the scale of the opportunity that exists within the sector and the industry's importance as a key enabler of economic growth, the Board is confident that Globaltrans is well placed to deliver sustainable long-term value for shareholders.

Alexander Eliseev
Chairman of the Board

CEO's review

2012 was one of the busiest, most productive periods in the Group's history

We successfully executed a large scale expansion of our operations, produced strong financial and operating results whilst retaining our absolute focus on customer service and operational efficiency. In a year of exceptional growth, we delivered:

- Record Adjusted EBITDA and Adjusted EBITDA Margin;
- Outstanding expansion with a 47% increase in the size of our Owned Fleet to over 58,000 units;
- A 25% increase in Freight Rail Turnover, outpacing the overall Russian market;
- An increase in overall Market Share to 7%, with Globaltrans outperforming the market for the fourth year in a row.

Strong financial performance

Globaltrans posted another strong financial result in 2012. The Group's Adjusted Revenue increased 15% to USD 1,322.0 million*, reflecting the substantial increase in our operating fleet and a supportive pricing environment.

Our Adjusted EBITDA for 2012 was up 30% year on year to USD 658.2 million*. The beneficial change in asset mix between Owned and Leased-in Fleets led to substantial margin improvement, with our Adjusted EBITDA Margin rising to 50%* from 44%* in 2011. Profit for the year was USD 311.6 million, a decline of 2% compared to the previous year as the rise in operating profit was offset by increased finance costs, reflecting primarily the additional borrowings we took on to finance our record investment

Sergey Maltsev,
Chief Executive Officer, member of the Board
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”.

Key data

+15%

Adjusted Revenue increased 15% year on year to USD 1,322.0 million* in 2012

Adjusted EBITDA increased 30% year on year to USD 658.2 million* in 2012

50%*

Adjusted EBITDA Margin increased to 50%* in 2012 (2011: 44%*)

programme. On the back of our strong performance we increased the dividend to USD 125.1 million (70 US cents per ordinary share/GDR) for 2012 compared to the USD 98.9 million (64 US cents per ordinary share/GDR) paid for 2011.

Industry overview

The long-term investment case for the rail freight sector is clear in a country where approximately 85% of all freight is moved by rail (excluding pipeline traffic). In 2012, with Russia’s economy growing strongly, the rail freight industry again prospered. Overall industry Freight Rail Turnover was up 4% and the rail turnover of freight carried on the network exceeded the pre-crisis levels of 2007. At the same time the industry continues to reshape itself. The key commercial trends we have identified in previous reports, such as an increasing shift by large cargo owners to outsource rail logistics and the acceleration of industry consolidation, were very much in evidence in 2012. We expect that consolidation will continue apace and that deals similar to our Metalloinvest and MMK will be struck as cargo owners increasingly favour large, well-funded specialist providers like Globaltrans.

The other trend is deregulation, which has already had a sizeable impact on our industry. In 2010 about 47% of the national railcar fleet was in private hands. Now that figure is approximately 75% which has led to a much better deal for customers with market pricing now prevalent across the industry. Locomotive traction remains the next big strategic segment to be addressed by the authorities. Deregulation in this segment will help tackle the industry problem of an ageing locomotive fleet that is hampering the overall network and serve to open an investment opportunity for companies like Globaltrans.

Performance review

Our operational performance in 2012 was again exceptional. It is particularly pleasing to note that in a year devoted to corporate transactions, our operational focus did not falter.

Once again we outperformed the growing Russian rail freight transportation market. Our Freight Rail Turnover increased 25% year on year, compared to the market that grew 4% in 2012. This performance is directly attributable to the excellent execution and integration capabilities that we have built up in the business. The deployment of more than 10,000 additional railcars and the integration of the Ferrotrans acquisition drove the significant rise in volumes recorded in the second half of the year.

Other key operational metrics also saw good progress. Our share of the overall market increased to 7% (2011: 6%). In our largest segment, metallurgical cargoes, our Market Share increased to 17% (2011: 10%). There was also a good performance in the oil products and oil segment, a traditional strength of the Group, where our Market Share was 10%. Our market position in construction materials was also enhanced during the year with Market Share up to 3%, reflecting buoyant construction activity in Russia.

There was an improvement in the Group’s Empty Run Ratio for gondola cars

CEO's review continued

following the integration of Ferrotrans into the existing network in the second half of the year along with decreased coal operations and a favourable market for the transportation of construction materials. Overall for the year, the Group's Empty Run Ratio for gondola cars was 38%, a steady improvement from 41% in 2011.

Targeted expansion and enhanced resilience

In 2012, we continued our organic growth, successfully deploying more than 10,000 additional railcars delivered over the year. Our approach remains pragmatic and flexible: where we see an opportunity to accelerate growth through acquisition we will do so, provided the targets fit our strategy and meet our strict acquisition criteria.

In 2012, we were able to harness our M&A expertise and take advantage of the outsourcing trends in the industry by making two major strategic acquisitions of captive freight rail operators, namely Ferrotrans (renamed from Metalloinvesttrans) and Steeltrans (renamed from MMK-Trans). These complex outsourcing deals, including the cargo transportation contracts for three and five years respectively, were the first of their kind for the industry and I believe they set the standard for future commercial collaboration between our industry and the major users of rail freight services. The business of Ferrotrans was successfully integrated into our operations, while the integration of Steeltrans (the acquisition completed in February 2013) is underway.

Our Total Fleet is currently about 65,000 units including the fleet of Steeltrans.

This record growth would have been impossible without the support of our shareholders – in July 2012 we successfully raised USD 400 million in gross proceeds from GDR offering to help fund our large-scale investment programme.

Our service culture, reputation for reliability and focus on developing long-term partnerships with customers has been a feature of Globaltrans from the beginning. This partnership approach is likely to be an even greater source of competitive advantage, as the large cargo owners increasingly look to outsourcing to solve their freight transport needs. Currently, about 85%[2] of the our Owned Fleet consists of either rail tank cars exposed to the resilient oil products and oil transportation or rolling stock covered by long-term contracts with Metalloinvest and MMK.

Strong financial platform

Our strong financial profile and our ability to raise money when needed to support our growth enabled the Group to fund its new railcar purchase programme and make the two aforementioned strategic acquisitions.

In keeping with our conservative approach, we retained a strong financial platform with access to significant undrawn banking facilities and a conservative funding structure in place of primarily fixed rate rouble denominated debt. Net Debt at year end 2012 was USD 896.9 million*, which was higher than the corresponding

Key data

+25%

Freight Rail Turnover increased 25% year on year to 137.8 billion tonnes-km in 2012

38%

Empty Run Ratio for gondola cars improved to 38% in 2012 (2011: 41%)

+47%

Owned Fleet increased 47% year on year to 58,501 units at 2012 end

2. Owned Fleet of Globaltrans as of the end of 2012 including the fleet of Steeltrans (renamed from MMK-Trans); compared to the estimated number of railcars required to service contracts at current input/output volumes presented for transportation by rail by Metalloinvest (100%) and MMK (70%) and the number of rail tank cars in ownership.

2012 is the fourth successive year in which Globaltrans outperforms the overall Russian freight rail market

figure in 2011 as a result of funding our significant expansion activities. Nonetheless, we still ended the year with a Net Debt to Adjusted EBITDA ratio of 1.4 times*, which is very comfortable given the position and prospects for the Group. Our Net Debt adjusted for the Steeltrans transaction consideration (closed in February 2013) is estimated at USD 1,231.9 million*[3].

Summary

The Russian freight rail transportation market grew steadily throughout 2012 with the exception of the final few months when the effects of specific macro-economic factors were felt. This continued into January before showing a slight improvement in February 2013 with the overall Russian Freight Rail Turnover for that month, adjusted for an extra day in 2012[4], being stable year on year.

About 85%[5] of Globaltrans' Owned Fleet is either secured by long-term contracts or exposed to the stable oil products and oil transportation segment, providing a solid base for our business in 2013 and beyond. There is also good scope for leveraging the Group's unique advantage in logistics as the recently acquired cargo bases are a natural fit with our existing customer base. This provides a basis for improvement in our rolling stock management by making the logistics of gondola cars more efficient.

2013 has started in line with the Group's expectations. The Group's railcars are fully deployed and in the first two months of 2013 the Group recorded a 35% year on year increase in Freight Rail Turnover.

Our new fleet generates strong cash flow which we will use to support further growth as well as for dividend distributions to shareholders. We believe the current market environment may well be a catalyst for further consolidation and we intend to be a beneficiary as that develops.

Sergey Maltsev
CEO

3. Simple addition of MMK-Trans (acquisition completed in February 2013; renamed to Steeltrans) enterprise value of USD 335 million* to Group's Net Debt as of 31 December 2012.
4. Overall Russian Freight Rail Turnover in February 2013 has been adjusted for an extra day in February 2012 (February 2013: 28 days; February 2012: 29 days); excluding adjustment, overall Russian Freight Rail Turnover in February 2013 declined 4% year on year.
5. Owned Fleet of Globaltrans as of the end of 2012 including the fleet of Steeltrans (renamed from MMK-Trans); compared to the estimated number of railcars required to service contracts at current input/output volumes presented for transportation by rail by Metalloinvest (100%) and MMK (70%) and the number of rail tank cars in ownership.

Strategic delivery

Our core strategy remains unchanged and in recent years has proved highly effective in delivering value

Sustainable long-term growth throughout the economic cycle
Our vision is to be Russia's leading independent private freight rail transportation group and a partner of choice for customers. This vision defines the Group's destination, and is supported by a total commitment to delivering value-added, innovative, and reliable transportation solutions to all our customers.

Our strategy is to grow the Group, strengthen our leading market positions, and leverage our proven business model to improve our operational efficiency and financial performance. The strategy provides the framework which sets the direction and profile of the Group over the longer term. At its heart is a commitment to delivering long-term sustainable value for our shareholders through the economic cycle.

Whilst our growth strategy remains broadly unchanged, what did change in 2012 was the scale of our business, the result of aggressive investment in organic growth and selective acquisitions.

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

- **Opportunistic growth**
  Expansion through a mix of organic growth and selective strategic M&A
- **Operational excellence**
  Continuously improving what we do every day
- **Innovation**
  Harnessing our expertise in logistics, technology and planning
- **Partnership**
  Developing long-term, win-win relationships with our customers
- **Independence**
  Enhancing our status as an independent, dedicated transportation specialist able to secure reliable and efficient freight rail transportation services for our customers

Balancing growth and resilience
We manage our business in a pragmatic and disciplined way. Our management philosophy encourages calculated risk-taking but within a disciplined operating framework.

The key components of the business model are: a focus on freight rail transportation; a commitment to a balanced fleet; a policy of opportunistic expansion that seeks to protect returns; and strong financial discipline.

Our operating model is fundamental to our success. It facilitates growth, spreads risk and provides resilience against market downturns. We continue to develop and adjust our model to ensure we continue to perform well.

Our strategy is to grow the Group, strengthen our leading market positions, and leverage our proven business model to improve our operational efficiency and financial performance

Core principles

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

Core principles

Opportunistic growth

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

Independence

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

Operational excellence

Continuously improving what we do every day

Partnership

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

Innovation

Harnessing our expertise in logistics, technology and planning

Strategic delivery continued

Sustainable long-term growth throughout the economic cycle

Return-oriented expansion

Selective strategic acquisitions
All potential acquisitions of other freight rail companies or rolling stock assets are carefully evaluated. Key assessment criteria include: the type and age of rolling stock; the scope for operational synergies; the impact on overall Group earnings; the access to new client relationships and the impact on competitive positioning in individual market segments.

Opportunistic organic growth
The Group invests in new railcars only when it believes market conditions are favourable. Investment decisions take into account future rail transportation demand and trends in railcar pricing.

Prudent investment and financial discipline
The Group has a highly disciplined approach to investments. All opportunities are carefully screened to ensure that any acquired assets produce maximum value and meet target rates of return while maintaining a strong balance sheet.

Expansion into new freight rail segments
The Group intends to capitalise on its locomotive experience and expand its involvement in the sector once the relevant legal and regulatory framework is in place.

Resilient business profile

Well balanced fleet
The Group seeks to ensure its fleet composition strikes the proper commercial balance between gondola cars and rail tank cars. About 85%[6] of the Group's Owned Fleet is now either covered by long-term service contracts, or exposed to resilient oil products and oil transportation (rail tank cars).

Pure play freight rail operator
A service offering focused exclusively on freight rail transportation complemented by a leasing business.

Operational flexibility
Use of Leased-in and Engaged Fleet enables the Group to extract additional operational flexibility and capture Market Share without committing capital.

Operational excellence

Large and modern fleet
The scale of the fleet means the Group services some of the largest rail transportation customers by volume of freight and provides a "one-stop-shop" service to major customers that have production facilities, suppliers and cargo destinations in multiple locations. The Group also believes its customers value the reliability that its modern, well maintained fleet provides.

Wide geography of operations and advanced logistics
The Group manages the dispatching and routing of its rolling stock to make its utilisation commercially efficient on outbound as well as on return journeys. Successful route optimisation is the result of sophisticated centralised logistics, a large fleet, extensive geographical coverage, and a customer base that includes the presence of large industrial groups and their suppliers.

Independence and reliability
Customers value the fact that the Group is not controlled by any major industrial group or government entity. This independence gives the Group the flexibility to respond quickly to customer needs. It also means Globaltrans can provide to its key customers a complete service, something which few of its major competitors are able to offer.

Customer-centric approach and high-quality service offering
The Group has close working relationships with the major industrial groups whose cargo transportation patterns are typified by high volumes and a requirement for regular, on-time shipments of raw materials and finished products. An intimate understanding of their production methods and transportation needs means the Group can use its expertise in advanced route planning to provide frequent and reliable transportation services that respond to customers' rapidly changing needs.

We continue to develop and adapt our business approach to capture new growth opportunities and respond to changes in our business environment

Continuously meeting our goals

The Group employs a number of performance indicators to monitor performance and measure progress against the overall strategy. The table below summarises the Group's progress in 2012.

Strategy component	Delivered in 2012	Priorities for 2013
Return-oriented business expansion	The Group expanded its fleet via a combination of organic growth and selective M&A. The Owned Fleet grew 47% year on year to 58,501 units as of the end of 2012. If the fleet of MMK-Trans (renamed to Steeltrans), acquired in February 2013 is included, the Group's Owned Fleet increased to about 62,000 units with Total Fleet of about 65,000 units. **Organic growth:** • In 2012 the Group took delivery of about 10,000 railcars, all of which were successfully deployed, mostly with existing clients. **Selective strategic acquisitions:** • In May 2012 the Group acquired Metalloinvesttrans (renamed to Ferrotrans), the captive freight rail business of Metalloinvest with c.8,300 owned railcars. Globaltrans also signed a three-year contract to service Metalloinvest rail logistics. • In December 2012 the Group agreed to acquire MMK-Trans (renamed to Steeltrans), the captive freight rail operator of MMK, with an Owned Fleet of c.3,600 units. The transaction closed in February 2013. Globaltrans also signed a five-year service contract with MMK. **Expansion into locomotive segment:** • In 2012 the Group acquired an additional five locomotives primarily for use in the transportation of oil products and oil. The Group also purchased 10 electric locomotives as a part of the MMK-Trans deal, which will gradually enter service in 2013.	• In 2013 the Group will continue to look for M&A and organic growth opportunities that would fit well with its strategy and add value for shareholders. • To deliver efficient integration of newly acquired assets, in particular Steeltrans, so that the Group benefits from the resulting fleet management synergies and cost savings.
	Enhanced resilience: • About 85%[6] of the Group's Owned Fleet is now either covered by long-term service contracts, or exposed to resilient oil products and oil transportation (rail tank cars). **Gondola and rail tank cars are the backbone of the fleet:** • As at year end 2012, gondola cars made up 63% of the Total Fleet with rail tanks making up the balance 36%.	• Secure more longer term partnering agreements with major customers.
	Increased profitability: • In 2012 the Group improved its profitability with Adjusted EBITDA Margin increasing to 50%*, driven primarily by substitution of Leased-in Fleet with owned railcars. **Improved fleet efficiency:** • In 2012 the Group capitalised on the favourable logistics of the Ferrotrans operations acquired in May 2012 by efficiently integrating its routes into the broader Group's logistics schemes. Empty Run Ratio for gondola cars improved to 38% in 2012 from 41% in 2011.	• Extract additional operational synergies from a combination of cargo bases of recently acquired captive rail operators with the existing routes thus effectively matching inbound and outbound traffic. • Work with its existing customers with a view to increasing the use of block trains on high-cargo volume routes in order to increase efficiency of the fleet. • Continue ongoing development and improvement in the use of route optimisation software.

6. Owned Fleet of Globaltrans as of the end of 2012 including the fleet of Steeltrans (renamed from MMK-Trans); compared to the estimated number of railcars required to service contracts at current input/output volumes presented for transportation by rail by Metalloinvest (100%) and MMK (70%) and the number of rail tank cars in ownership.

Management review

Our senior management team

Globaltrans' senior management team combines an **unrivalled knowledge of the rail industry** together with a highly **entrepreneurial management style** - an approach that has enabled the Group to continue to grow rapidly over time

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

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 has served as the Chairman of the presidium of the non-profit partnership "Council of Railway Operators' Market". He graduated from the Leningrad Frunze Higher School of Railway Forces and Military Communications where he obtained a degree as a railway operations engineer.

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

Valery Shpakov joined New Forwarding Company (a Globaltrans subsidiary) in 2003 and has served as its CEO since 2007. He is an experienced manager with a track record of over 30 years in the rail industry. He began his career in the private sector in 1999 and has held managerial positions at various companies within the transport sector. In 2006, the Russian Transport Ministry made Mr. Shpakov an "Honoured Railwayman of Russia" in recognition of his contribution to the development of the rail transport sector.

Vladimir Prokofiev
Deputy Chief Executive Officer, CEO of BaltTransServis

Vladimir Prokofiev has served as CEO of BaltTransServis (a 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 began his career as a railway worker, subsequently advancing to Railway Station Manager and then Chief Rail Engineer. In 1991, he joined the private sector and in 1997 he was one of the founders and CEO of the pioneering private oil freight rail operator in Russia. He is also a recipient of an "Honoured Railwayman of Russia" Award.

Irina Alexandrova
Deputy Chief Executive Officer, CEO of Sevtekhnotrans

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

Globaltrans' senior management team includes three people who have had the privilege of being recognised as "Honoured Railwayman of Russia"

Alexander Shenets
Chief Financial Officer

Alexander Shenets is the CFO of Globaltrans and has served in this capacity since the Group's establishment. Mr. Shenets has more than 12 years of experience in senior finance positions, mostly gained within the rail sector. He previously held positions at a number of transportation companies. He has a degree in Applied Mathematics from Moscow State University, a PhD in Philosophy from Bauman Moscow State University, and an MBA from the Graduate School of Business Administration at Moscow State University.

Vyacheslav Stanislavsky
Deputy Chief Executive Officer, Operations

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

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

Mr. Storozhev has worked in senior management positions of 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 Directors of the New Forwarding Company and Sevtekhnotrans.

Roman Goncharov
Head of Treasury

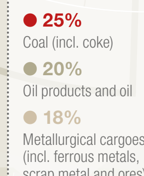
Mr. Goncharov, Head of Treasury of the Group, has served as CFO of New Forwarding Company (a Globaltrans subsidiary) since 2007. He has more than 12 years of management experience. He studied at the Plekhanov Academy and at the Russian Economic Academy, where he obtained a diploma in Finance and Credit. Mr. Goncharov also has an MBA from the Moscow International School of Business. He previously worked as Finance Director of Transgarant and was Head of the Finance Department for Severstaltrans.

Market and operating environment

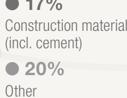
Directors' responsibility

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

By order of the Board



Sergey Maltsev,
Director and Chief Executive Officer

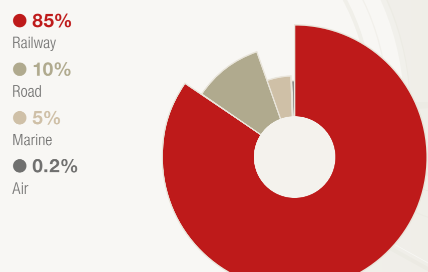


Mikhail Loganov,
Director

Russian freight market overview

Russian freight turnover by means of transport

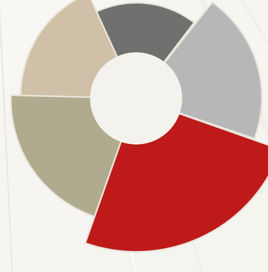
(excl. pipeline traffic), 2012



Source: Rosstat

Overall Russian freight rail volumes

by type of freight, 2012



Source: Rosstat

2012 is the fourth successive year in which Globaltrans has outperformed the overall Russian freight rail market

Market growth continued in 2012

In 2012 the Russian freight rail sector continued to perform strongly as a buoyant economy drove solid demand for freight rail services. With GDP up 3% year on year and industrial production ahead by 3%, overall Russian Freight Rail Turnover (measured in tonnes-km) increased by 4% year on year, surpassing that of the last five years.

Total freight rail transportation volumes (measured in tonnes) in Russia grew by 2% year on year. The main contributors were construction materials where volumes were up 12%, coal (including coke) where volumes rose 4%, and oil products and oil which recorded a 3% increase in volumes. Metallurgical cargo volumes (including ferrous metals, scrap metal and ores) declined slightly, falling 2% year on year.

Globaltrans continued to outperform the overall Russian market, strengthening its Market Share further to 7% in 2012, an increase from 6% on the previous year. While the Group's Freight Rail Turnover increased 25% year on year, the increase in the second half was far more pronounced as the full impact of the deployment of all our newly acquired assets was felt.

Overall, the dynamics of the industry showed relative stability throughout 2012. The monthly industry Freight Rail Turnover only fell back slightly in December (down 1% year on year), reflecting the seasonal impact of the slowdown in construction activity and industrial production towards the end of the year.

Evolving industry landscape

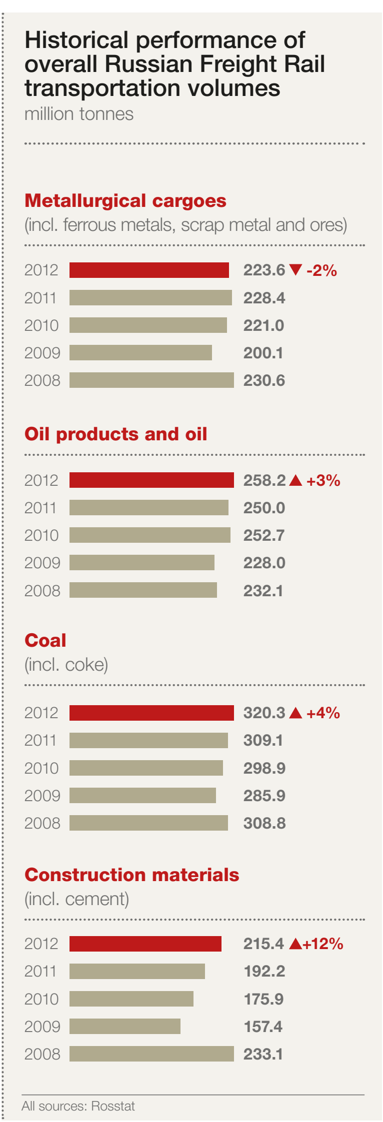
Last year's report pointed out the highly fragmented nature of the market and raised the prospect of further sector consolidation. We expected that this theme would start to play out properly in 2012 as the large blue-chip industrial customers increasingly looked to outsource their freight rail logistics to specialist providers in order to take the "one-stop-shop" approach.

In fact, what this year witnessed was a sharp acceleration in the trend to consolidate, led by the metallurgical industry. In 2012, three large captive freight rail operators were divested by their parent holding companies in the metallurgical/steel industry. This is a highly significant development for our industry as it not only changes the architecture of relationships between rail operators and cargo owners but also establishes a template for the process of future consolidation in the industry.

Once again, Globaltrans was first to understand the full implications of the outsourcing trend for the industry and then to commercialise the opportunity. In 2012, the Group successfully acquired two out of the three "captive" freight rail operating companies put up for sale: Metalloinvesttrans (renamed to Ferrotrans) and MMK-Trans (transaction completed in 2013; renamed to Steeltrans). In both cases, long-term contracts have been signed with the respective industrial groups to service the majority of their rail transportation needs.

The competitive landscape remains highly fragmented. In a deregulated industry like

Market and operating environment continued



freight rail where market pricing prevails, industry consolidation will remain a key driver of change and this is likely to lead to further transactional activity in 2013.

The long-awaited initiative to unify Empty Run tariffs payable to RZD for usage of infrastructure and traction of empty railcars finally came into force in November 2012. The effect of this measure is that a single tariff will now operate (subject to certain exceptions) for the transportation of empty gondola and flat cars irrespective of the type of cargo last transported.

Railway transportation market by key cargoes

Metallurgical cargoes

Metallurgical cargoes (including ferrous metals, scrap metal and ores) is the largest single cargo segment for Globaltrans, contributing 55% of its Freight Rail Turnover in 2012. Globaltrans historically was focused on the sector for rail transportation of metallurgical cargoes. The Group's Market Share in this sector amounted to 17% in 2012, increasing from 10% in the previous year.

The presence of large metallurgical groups and their suppliers among the Group's key clients enables Globaltrans to increase the efficiency of its fleet management, matching outbound and inbound traffic, thus decreasing the Empty Runs of gondola cars.

This segment accounted for 18% of overall Russian freight rail transportation volumes in 2012. It was a challenging year for the world metallurgical industry, beset by structural overcapacity in the global steel market, intense competition and a weak pricing environment. Although Russia's metallurgical industry was not immune to these trends, the index for metallurgical production in Russia grew by 5% in 2012, benefiting from solid domestic demand.

Total Russian freight rail transportation volumes of metallurgical cargoes were slightly subdued, posting a year on year decline of 2%. The major impact was felt in the scrap metal segment where rail transportation volumes dropped 11% year on year. Rail transportation volumes of ferrous metals and iron ore (including manganese ore) were stable, registering slight declines of 0.1% and 1% respectively.

Oil products and oil

Oil products and oil is the second most important cargo segment for Globaltrans, contributing 22% of the Group's Freight Rail Turnover in 2012. Globaltrans had a 10% Market Share in this sector in 2012. Historically this segment remains the most resilient of all rail cargo segments.

Oil products and oil transportation accounted for 20% of the overall freight rail transportation volumes in Russia in 2012. The majority of Russian refined oil products are transported by rail whilst crude oil transported directly from the field to Russian refineries and export destinations by pipeline.

Supported primarily by increased production volumes of refined products (the index for oil products production in Russia was up 3% year on year in 2012), overall Russian rail

Globaltrans continued to outperform the overall Russian market, strengthening its Market Share further to 7% in 2012

transportation volumes of oil products and oil posted a 3% year on year increase in 2012.

Coal

Coal (including coke) was the largest segment of Russia's freight rail transportation industry, accounting for 25% of the overall Russian freight rail transportation volumes in 2012.

Coal is the third largest cargo for Globaltrans, accounting for 13% of the Group's Freight Rail Turnover in 2012. The Group's Market Share in the rail transportation of coal was 3% in 2012.

Total Russian rail transportation volumes of coal were up 4% year on year. Coal extraction in Russian in 2012 increased by 5% driven by demand from both domestic and international markets. The factors driving coal production volumes in Russia vary considerably between coking coal and thermal coal. As coking coal is used in the metallurgical industry, its production volumes are driven largely by the same key factors. Thermal coal production primarily reflects the demand for electricity from domestic industrial consumers as well as the demand in the international markets. Both thermal and coking coal markets experienced weak pricing environments in 2012.

Construction materials

Construction materials was the fastest growing segment in the industry in 2012. The construction materials overall rail volumes (including cement) continued to recover in 2012 and posted a year on year increase of 12%.

This robust performance was driven by an increase in infrastructure expenditure and the continued increase in construction activity in Russia, where the index for construction activity increased 2% year on year in 2012. The production of cement rose 10% year on year in 2012.

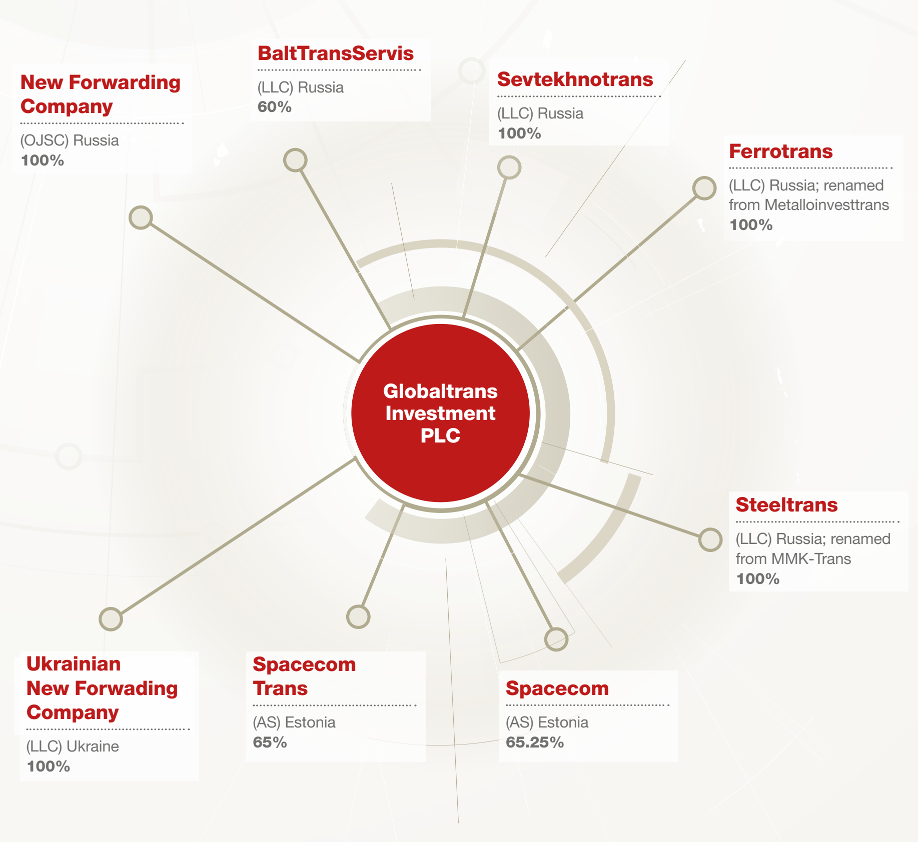
Construction materials (including cement) accounted for 6% of Globaltrans' Freight Rail Turnover in 2012. Due to the wide geographic dispersion of construction sites, construction materials is one of the key cargoes that enables the Group to optimise its return routes and reduce its Empty Runs of gondola cars. Globaltrans' Market Share in rail transportation volumes of construction materials reached 3% in 2012.

Operational performance

Corporate structure

Globaltrans Investment PLC operates through its subsidiaries in Russia, Ukraine and Estonia.

The Group's subsidiaries operate in the local markets under their own brands and identities and are managed as largely autonomous companies within the Group.



Source: Globaltrans; as of February 2013

Globaltrans operates one of the largest and modern rolling stock fleets of all the private freight rail groups in Russia

Enhanced Market Share and continued outperformance

The Group's operational performance was again very strong in 2012. The core freight rail transportation business, which contributed 88% of the Group's Adjusted Revenue in 2012, made significant progress, benefiting from the substantial growth in fleet capacity, the operational synergies that flowed from the Ferrotrans acquisition, and the efficient deployment of additional railcar capacity.

The Group delivered a year on year increase of 25% in Freight Rail Turnover, amounting to 137.8 billion tonnes-km. This is the fourth successive year in which Globaltrans' Freight Rail Turnover has outstripped the overall Russian freight rail market which grew by 4% year on year.

OJSC New Forwarding Company is Globaltrans' key operating company. It is one of Russia's leading freight rail operators specialising in the rail transportation of various bulk cargoes including metallurgical cargoes, coal and construction materials. It is also engaged in the rail transportation of oil products and oil.

BaltTransServis

LLC BaltTransServis is one of Russia's leading freight rail operators of rail tank cars, specialising in shipping oil products and oil, notably fuel oil, diesel and gasoline, and provision of various logistics services and distribution to shipping terminals. BaltTransServis has extensive expertise and a strong position in the operation of locomotives, and is currently operating more than 90% of the Group's locomotives.

Sevtekhnotrans
Railway transportation of cargo

OOO Sevtekhnotrans is another Russian-based subsidiary of Globaltrans. Sevtekhnotrans is mainly engaged in freight forwarding and rolling stock leasing services, mainly to the other companies within the Group.

LLC Ferrotrans (renamed from LLC Metalloinvesttrans) specialises in the rail transportation of iron ore and other metallurgical products. Ferrotrans was formerly owned by Metalloinvest and was its captive railway transportation operator, managing all of the Metalloinvest's freight rail transportation.

STEELTRANS

LLC Steeltrans (renamed from OOO MMK-Trans) specialises in the rail transportation of metallurgical cargoes and coal. Steeltrans was formerly a captive railway transportation operator servicing MMK, one of the largest single-site steelmakers in Russia.

SPACECOM
SPACECOM TRANS AS

AS Spacecom and AS Spacecom Trans are Estonia-registered companies engaged in the rail tank car leasing business in CIS countries.

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

Operational performance continued

In 2012 Globaltrans transported 83.9 million tonnes of freight, a year on year increase of 21%. The Group once again increased its Market Share during the period to 7% from 6% in 2011.

Metallurgical cargoes

Metallurgical cargoes (including ferrous metals, scrap metal and iron ore) are the largest operating segment for Globaltrans. Historically the Group has focused on the transport of metallurgical cargoes as the specific logistics and production cycles of metallurgical and steel producers makes for efficient fleet management and strong asset utilisation. In 2012 the segment contributed 55% of the Group's Freight Rail Turnover, giving Globaltrans a Market Share of 17%.

The Group's operations in this segment grew 52% year on year, with Freight Rail Turnover reaching 75.7 billion tonnes-km. The key contributors to this result were iron ore and ferrous metals, where Freight Rail Turnover of the respective cargoes increased 104% and 18% respectively. Overall Russian freight rail volumes of metallurgical cargoes fell slightly, posting a year on year decline of 2%.

Oil products and oil

Oil products and oil is the second largest freight segment for Globaltrans and contributed 22% of the Group's Freight Rail Turnover in 2012. The Group's Market Share in this segment reached 10% in 2012. Historically this sector has proved to be the least volatile, most consistent performer of all rail cargo segments in Russia.

Performance highlights of Globaltrans' freight rail transportation business in 2012

	2011	2012	Change
Freight Rail Turnover (incl. Engaged Fleet), billion tonnes-km	110.6	137.8	25%
Transportation volume (incl. Engaged Fleet), million tonnes	69.6	83.9	21%
Freight Rail Turnover (excl. Engaged Fleet), billion tonnes-km	108.6	116.7	7%
Transportation Volume (excl. Engaged Fleet), million tonnes	68.4	74.3	9%
Average Rolling Stock Operated, units	42,363	46,825	11%
Average Number of Loaded Trips per Railcar	26.1	25.0	-4%
Average Distance of Loaded Trip, km	1,589	1,561	-2%
Average Price per Trip, USD	967	992	3%
Average Price per Trip, RUB	28,411	30,813	8%
Total Empty Run Ratio, %	62%	57%	–
Empty Run Ratio for gondola cars, %	41%	38%	–

Source: Globaltrans

Globaltrans' Freight Rail Turnover

2011-2012, billion tonnes-km

Source: Globaltrans

Consistent market outperformance

Source: Globaltrans, Rosstat

The Group delivered a year on year increase of 25% in Freight Rail Turnover, amounting to 137.8 billion tonnes-km

Valery Shpakov, First Deputy CEO
In 2012 Globaltrans became the key driver of industry consolidation. We won two large deals that were strategically important: not only have we bought captive operators from metallurgical companies Metalloinvest and MMK, but we have signed contracts to serve these companies on a long-term basis – this will create a unique long-lasting logistical advantage for Globaltrans as by consolidating the complementary freight bases of these companies with the routes of other our customers, we can manage our fleet more efficiently.

The Group's Freight Rail Turnover of oil products and oil slightly declined by 2% to 30.3 billion tonnes-km, due to a decrease in the average distance of loaded trip by rail tank cars. In contrast, the actual volumes of oil products and oil transported by the Group increased 2% year on year. The average number of rail tank cars in operation remained stable year on year at about 15,000 units.

The overall market for rail transportation of oil products and oil remained solid in 2012, with total Russian rail volumes up 3% year on year.

Coal

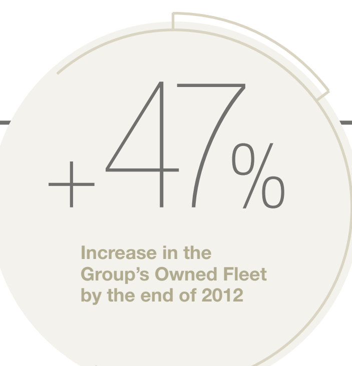
The Group's Market Share in the transportation of coal (including coke) was 3% in 2012, with this segment contributing 13% of the Group's Freight Rail Turnover.

Responding to the volatile market conditions Globaltrans switched part of its gondola fleet from its coal operations to the metallurgical and construction materials segments. This decision resulted in the Group's Freight Rail Turnover of coal declining 5% year on year to 18.4 billion tonnes-km in 2012.

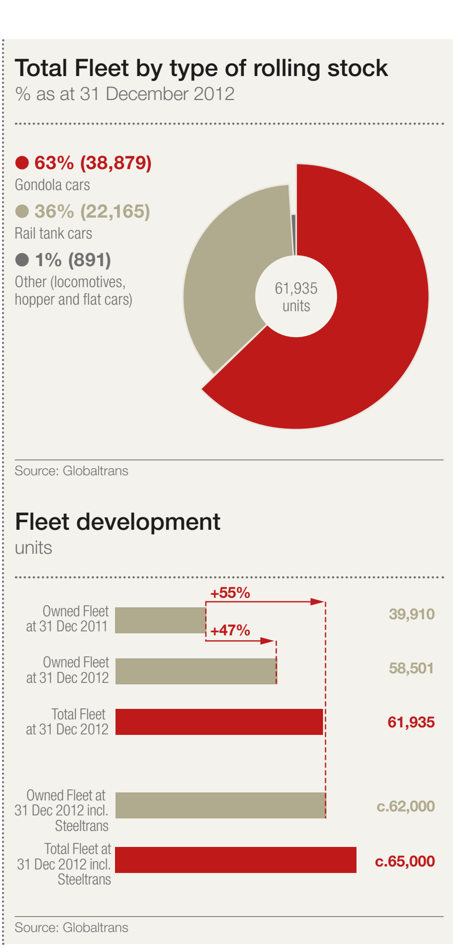
The Group continued its use of block trains to transport thermal coal in order to benefit from increased speed and reliability of cargo off-take. Block trains consist exclusively of Group-operated railcars carrying a single commodity from one source to one destination.

Construction materials

Construction materials (including cement) was the fastest growing segment in the industry in 2012 with the overall market volumes up 12% year on year. Globaltrans increased its presence in this segment, leveraging this favouable momentum, and the Group's Freight Rail Turnover jumped 60% year on year to 7.9 billion tonnes-km in 2012. The Group's Market Share in this segment amounted to 3% in 2012.



Operational performance continued



Large scale fleet expansion

Globaltrans operates one of the largest rolling stock fleets of all the private freight rail groups in Russia. As at the end of 2012, the Group's Total Fleet amounted to 61,935 units, an increase of 30% from the previous year.

2012 was a year which witnessed a rapid acceleration in the size of the Group's fleet as Globaltrans pursued its acquisition programme, acquiring new railcars, and at the same time entering into two major corporate transactions (the acquisition of Ferrotrans in May 2012 and Steeltrans (renamed from MMK-Trans) in February 2013).

In 2012 Globaltrans increased its Owned Fleet by 47% or 18,591 units of rolling stock (excluding c.3,600 units of Steeltrans fleet). The Group's investment programme was focused on gondola cars and rail tank cars. As the deliveries of these railcars were staggered through the course of the year, the full impact from their deployment will be reflected in the Group's operations in 2013. The Group's Average Rolling Stock Operated in its freight rail transportation business stood at 46,825 units in 2012, an increase of 11% year on year.

Historically, Globaltrans has concentrated on building its own fleet of modern rolling stock, which has become the backbone of the Group's operations. As of the end of 2012, the Owned Fleet represented 94% of the Group's Total Fleet or 58,501 units of rolling stock. The average age of the Group's Owned Fleet was 7.0 years as of the end of 2012, which is relatively young compared to the fleets of the other large market participants in Russia.

Globaltrans has a leading position in the operation of locomotives among other private players

The Group also uses operating leasing to supplement its Owned Fleet. This approach means it is able to react quickly to changes in demand without incurring significant capital expenditure. In 2012 Globaltrans successfully completed its initiative for substitution of Leased-in Fleet with Owned Fleet. As of the end of 2012 the Leased-in Fleet stood at 3,434 units or 6% of the Group's Total Fleet, compared to 7,670 units as of the end of the previous year.

After the acquisition of Ferrotrans in May 2012 Globaltrans increased its usage of rolling stock subcontracted from third-party rail operators (Engaged Fleet) to meet the demand not covered by the Group's Owned or Leased-in Fleet. In 2012 the Freight Rail Turnover generated by Engaged Fleet amounted to 21.2 billion tonnes-km (15% of the Group's Freight Rail Turnover) compared to 2.0 billion tonnes-km in 2011 (2% of the Group's Freight Rail Turnover).

The Group's business model is based on striking the appropriate commercial balance between universal gondola cars and rail tank cars. In general, all purpose gondola cars are the mainstay of the fleet, and 63% of the Total Fleet, or 38,879 units as at the end of 2012. Having a significant proportion of the fleet made up of universal gondola cars enables the Group to react rapidly to changes in transport requirements for different types of bulk cargoes. Rail tank cars make up the balance, accounting for 36% of the Total Fleet or 22,165 railcars.

Operational performance continued

An exposure to rail tank cars provides the Group with greater earnings stability as volumes in the oil products and oil transportation sector have proved to be relatively stable throughout the full economic cycle.

Globaltrans also has a leading position in the operation of locomotives among other private players. The Group's fleet of locomotives in ownership consisted of 58 units as of the end of 2012, with the vast majority employed in the oil products and oil transportation segment for the traction of block trains.

Deepening relationships with key customers

Our customers demand a high level of service and excellence in execution. Globaltrans has a reputation for delivering a fast, reliable service and effective transportation solutions.

The scale of the Group's fleet and quality of service offering enables Globaltrans to provide services to some of the largest Russian rail transportation customers and offer a "one-stop-shop" to our key customers that have production facilities, suppliers and cargo destinations in multiple locations. The Group currently works with over 650 customers across Russia and the CIS region. The backbone of the Group's customer base includes blue-chip companies in the metals and mining industry such as Evraz, Mechel, Metalloinvest, MMK, Severstal and TMK as well as Gazpromneft, LUKOIL, Rosneft and TNK-BP in the oil products and oil industry.

Our large customers increasingly require the reliable management of their transport and logistics chains and Globaltrans has benefited from this trend. The Group has secured contracts to service the freight transportation needs of two large

Alexander Shenets, CFO

In 2012 we again delivered a strong financial performance. The Group's Adjusted Revenue was up 15% year on year, primarily related to an increase in the rolling stock fleet, while Adjusted EBITDA rose 30% year on year to a record USD 658.2 million*.

The Group's profitability further improved with the Adjusted EBITDA Margin rising to 50%*, largely driven by a change in the structure of assets operated by the Group with the majority of leased-in rolling stock being replaced with our own railcars over the past year.

Globaltrans remained a cash generative business with cash generated from operations increased 29% year on year to USD 649.9 million.

While we have pursued an ambitious investment programme over the past year, we have nonetheless maintained a comfortable debt level. At the end of 2012, the ratio of Net Debt to Adjusted EBITDA was 1.4x*, before taking into account the Steeltrans (renamed from MMK-Trans) acquisition which was completed in February 2013.

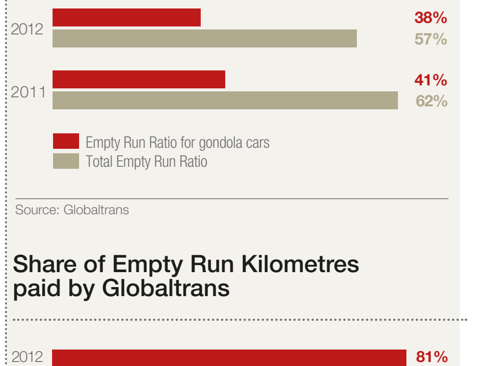
Net Revenue from operation of rolling stock

by largest clients (incl. their affiliates and suppliers)

	2011	2012
TNK-BP	21%	21%
MMK	12%	13%
Metalloinvest	9%	13%
Evraz	8%	7%
Gazpromneft	5%	6%
Lukoil	5%	4%
Rosneft	3%	2%
Severstal	3%	2%
Mechel	2%	2%
TMK	2%	1%
Other (incl. small and medium enterprises)	29%	28%

Source: Globaltrans

Empty Run Ratio



Source: Globaltrans

Share of Empty Run Kilometres paid by Globaltrans

2012	81%
2011	78%

Source: Globaltrans

metallurgical/steel groups: Metalloinvest, where the contract became effective in May 2012, and MMK, where the contract became operative in March 2013. Under the terms of the three-year contract signed with Metalloinvest, Globaltrans is responsible for 100% of its rail transportation cargo volumes[7]. The five-year service contract with MMK includes the provision of rail transportation services for at least 70% of its rail cargo flows. Servicing these requirements secures demand for about 80%[8] of Globaltrans' owned non-oil railcar fleet.

Improved Empty Run Ratio

One of the cornerstones of Globaltrans' business model is its advanced destination and traffic management systems. These enable the Group to maximise fleet utilisation and decrease Empty Runs of rolling stock. Converting empty trips to loaded runs drives revenue, while at the same time decreasing Empty Run Costs, which are the largest contributor to Operating Cash Costs for the Group.

As early as the shipment planning stage, the opportunities to optimise Empty Runs are examined. The management tracks the efficiency of fleet utilisation employing the Empty Run Ratio, calculated as the total of empty trips in kilometres by the relevant rolling stock type divided by total loaded trips in kilometres of that rolling stock type. Destination and route management is principally applied to universal gondola cars whereas in the case of specialised rolling stock, such as rail tank cars and hopper cars, optimisation opportunities are more limited as the railcars practically always return empty.

In 2012 the Group improved its Empty Run Ratio for gondola cars due to the successful integration of Ferrotrans into the existing network along with decreased coal operations and a favourable market for the transportation of construction materials. The logistics of Ferrotrans complement our existing customer base, providing more opportunities to match inbound and outbound traffic efficiently. The Group's Empty Run Ratio for gondola cars in 2012 improved to 38% compared to 41% in the previous year. The Total Empty Run Ratio for all rolling stock (including gondola, rail tank, hopper and flat cars) declined to 57% in 2012 compared to 62% in 2011.

Steeltrans, with its favourable spread of geographic operations, will be gradually integrated into the Group's network during 2013.

Leasing business

Railcar leasing is an important part of the Group's service offering to customers, with key markets being in Belarus, Kazakhstan and Russia. In 2012, Globaltrans continued to develop its leasing operations, which contributed 10% of Group's Adjusted Revenue over the reporting period. The Leased-out Fleet is comprised primarily of rail tank cars and amounted to 9,227 units as at the end of 2012, a year on year increase of 31%. The majority of leasing business operations is concentrated in the Group's Estonian subsidiaries, AS Spacecom and AS Spacecom Trans.

7. As agreed in April 2013 with Metalloinvest, from 1 June 2013 to 31 May 2015 Globaltrans will continue transporting 100% of Metalloinvest rail volumes, an increase from the minimum 60% initially agreed for this period.
8. Owned non-oil fleet of Globaltrans as of the end of 2012 including the fleet of Steeltrans (renamed from MMK-Trans); compared to the estimated number of railcars required to service contracts at current input/output volumes presented for transportation by rail by Metalloinvest (100%) and MMK (70%).

Financial review

Highlights

+15%

Adjusted Revenue increased 15% year on year to USD 1,322.0 million* in 2012

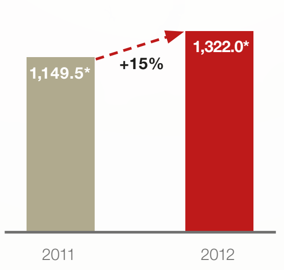
Adjusted EBITDA rose 30% year on year to USD 658.2 million* in 2012

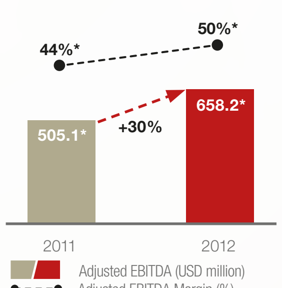
Adjusted EBITDA Margin increased to 50%* compared to 44%* in 2011

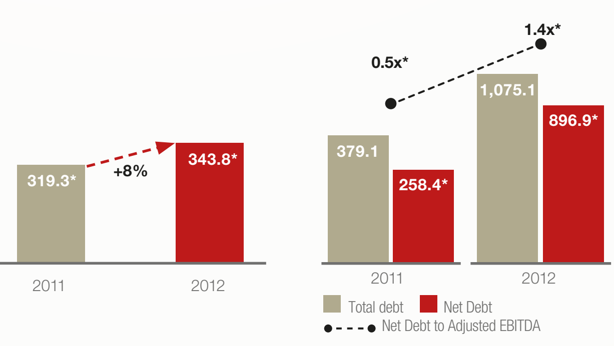
Operating Profit up 24% year on year to USD 536.5 million in 2012

Leverage remained at a comfortable level with a Net Debt to Adjusted EBITDA ratio of 1.4x* at the end of 2012

Dividend Pay-out Ratio of 48%* in respect of 2012







All sources: Globaltrans

Results in detail[9]

The following table provides the Group's key financial and operational information for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m	Change %
EU IFRS financial information			
Revenue	1,733.1	**2,114.3**	22%
Including Total revenue – operator's services	1,651.8	**1,969.3**	19%
Total revenue – operating lease	76.6	**135.8**	77%
Total cost of sales, selling and marketing costs and administrative expenses	1,304.2	**1,579.0**	21%
Operating profit	432.0	**536.5**	24%
Finance costs – net	(32.6)	**(124.5)**	282%
Profit for the year	317.2	**311.6**	-2%
Attributable to: Owners of the Company	266.4	**258.0**	-3%
Non-controlling interests	50.8	**53.6**	5%
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	1.68	**1.56**	-7%

	As at 31 Dec 2011 USD m	As at 31 Dec 2012 USD m	Change %
Total assets	1,467.8	**2,949.8**	101%
Total debt	379.1	**1,075.1**	184%
Cash and cash equivalents	120.8	**178.2**	48%

	2011 USD m	2012 USD m	Change %
Non-GAAP financial information			
Adjusted Revenue (without excluding the "pass through" item "Services provided by other transportation organisations")	1,177.0*	**1,432.6***	22%
Adjusted Revenue	1,149.5*	**1,322.0***	15%
Including Net Revenue from Operation of Rolling Stock	1,067.6*	**1,159.0***	9%
Revenue from operating lease of rolling stock	76.6	**135.8**	77%
Net Revenue from Engaged Fleet	0.7*	**18.0***	2,570%
Total Operating Cash Costs	644.3*	**662.8***	3%
Including Empty Run Costs	233.8*	**253.9***	9%
Repair and maintenance	76.2	**104.1**	36%
Employee benefit expense	62.2	**82.1**	32%
Operating lease rentals – rolling stock	132.6	**61.6**	-54%
Adjusted EBITDA	505.1*	**658.2***	30%
Adjusted EBITDA Margin (%)	44%*	**50%***	–
Adjusted Profit For The Year	319.3*	**343.8***	8%

9. The Group's financial performance in 2012 was affected by a 6% depreciation of the average exchange rate of the Russian rouble (Functional Currency of the Company, its Cyprus and Russian subsidiaries) against the US dollar compared to 2011 (the Group's financial information presentation currency). The 2012 period end exchange rate of the Russian rouble against the US dollar strengthened by 6% compared to the end of 2011. Certain comparable financial and operational information has been re-presented for 2011 to conform to changes in the presentation for 2012 and accounting for operations with Engaged Fleet.

Financial review continued

	2011	2012	Change %
Operational information			
Average Rolling Stock Operated, units	42,363	**46,825**	11%
Freight Rail Turnover (including Engaged Fleet), billion tonnes-km	110.6	**137.8**	25%
Transportation Volume (including Engaged Fleet), million tonnes	69.6	**83.9**	21%
Freight Rail Turnover (excluding Engaged Fleet), billion tonnes-km	108.6	**116.7**	7%
Transportation Volume (excluding Engaged Fleet), million tonnes	68.4	**74.3**	9%
Average Price per Trip, USD	966.5	**991.6**	3%
Average Price per Trip, RUB	28,411	**30,813**	8%
Average Number of Loaded Trips per Railcar	26.1	**25.0**	-4%
Total Empty Run Ratio, %	62%	**57%**	–
Empty Run Ratio for gondola cars, %	41%	**38%**	–
	As at 31 Dec 2011	**As at 31 Dec 2012**	**Change %**
Total Fleet, units	47,580	**61,935**	30%
Including Owned Fleet, units	39,910	**58,501**	47%
Average age of Owned Fleet	7.1	**7.0**	–

Revenue

The Group's revenue increased 22% to USD 2,114.3 million in 2012 compared to USD 1,733.1 million in the previous year, reflecting the factors described below.

The following table provides details of revenue, broken down by revenue-generating activity for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m	Change USD m	Change %
Railway transportation-operators services (tariff borne by the Group)[10]	929.9	1,208.5	278.5	30%
Railway transportation-operators services (tariff borne by the client)	721.9	760.9	39.0	5%
Railway transportation-freight forwarding	3.4	6.9	3.5	101%
Operating lease of rolling stock	76.6	135.8	59.2	77%
Other revenue	1.3	2.3	1.0	77%
Total revenue	**1,733.1**	**2,114.3**	**381.2**	**22%**

10. Includes "Infrastructure and locomotive tariffs – loaded trips" for the year ended 31 December 2012 of USD 681.7 million (2011: USD 556.0 million) and "Services provided by other transportation organisations" of USD 110.6 million (2011: USD 27.5 million).

Adjusted Revenue

Adjusted Revenue increased 15% year on year to USD 1,322.0 million* in 2012, supported by growth in business volumes as well as increased pricing. Adjusted Revenue without excluding the "pass through" component of the new business of engaging fleet from third-parties increased 22% year on year to USD 1,432.6 million*.

After the acquisition of Ferrotrans in May 2012 Globaltrans increased its usage of rolling stock subcontracted from third-party rail operators (Engaged Fleet) to meet the demand not covered by the Group's Owned or Leased-in Fleet. The "pass through" component of this activity is recorded in equal amounts in both revenues and cost of sales as "Services provided by other transportation organisations" and the net result of such activity is included in Adjusted Revenue as Net Revenue from Engaged Fleet (derived from management accounts).

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 following table provides details of Adjusted Revenue for the years ended 31 December 2012 and 2011 and their reconciliation to revenue.

	2011 USD m	2012 USD m	Change USD m	Change %
Revenue	1,733.1	2,114.3	381.2	22%
Minus				
Infrastructure and locomotive tariffs – loaded trips	556.0	681.7	125.7	23%
Adjusted Revenue (without excluding "pass through" item "Services provided by other transportation organisations")	**1,177.0***	**1,432.6***	**255.6**	**22%**
Minus				
Services provided by other transportation organisations	27.5	110.6	83.2	303%
Adjusted Revenue	**1,149.5***	**1,322.0***	**172.4**	**15%**

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 freight forwarding.

The following table provides a breakdown of Adjusted Revenue for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m	Change USD m	Change %
Net Revenue from Operation of Rolling Stock	1,067.6*	1,159.0*	91.4	9%
Operating lease of rolling stock	76.6	135.8	59.2	77%
Net Revenue from Engaged Fleet	0.7*	18.0*	17.4	2,570%
Railway transportation-freight forwarding	3.4	6.9	3.5	101%
Other revenue	1.3	2.3	1.0	77%
Adjusted Revenue	**1,149.5***	**1,322.0***	**172.4**	**15%**

Financial review continued

Net Revenue from Operation of Rolling Stock

Net Revenue from Operation of Rolling Stock accounted for 88% of the Group's Adjusted Revenue in 2012.

Net Revenue from Operation of Rolling Stock is a non-GAAP financial measure describing the net revenue generated from freight rail transportation and is defined as "Revenue from railway transportation-operators services[11]" less "Infrastructure and locomotive tariffs – loaded trips", "Services provided by other transportation organisations" and Net Revenue from Engaged Fleet.

The following table provides details of Net Revenue from Operation of Rolling Stock for the years ended 31 December 2012 and 2011, and their reconciliation to revenue from railway transportation-operators services.

	2011 USD m	2012 USD m	Change USD m	Change %
Railway transportation-operators services[11]	1,651.8	1,969.3	317.5	19%
Minus				
Infrastructure and locomotive tariffs – loaded trips	556.0	681.7	125.7	23%
Services provided by other transportation organisations	27.5	110.6	83.2	303%
Net Revenue from Engaged Fleet	0.7*	18.0*	17.4	2,570%
Net Revenue from Operation of Rolling Stock	**1,067.6***	**1,159.0***	**91.4**	**9%**

In 2012 the Group's Net Revenue from Operation of Rolling Stock was USD 1,159.0 million*, an increase of 9% compared to USD 1,067.6 million* in the previous year. In Russian rouble terms, Net Revenue from Operation of Rolling Stock increased 15% year on year in 2012. This increase reflected the following factors:

- Average Price per Trip increased 3% to USD 991.6 (in Russian rouble terms up 8% to RUB 30,813) in 2012 compared to 2011; Average Distance of Loaded Trip decreased 2% year on year in the same period;
- An increase in the Group's Average Rolling Stock Operated of 11% to 46,825 units in 2012 compared to the previous year which was driven by deliveries of additional railcars and the consolidation of Ferrotrans acquired in May 2012 offset by a gradual decrease in the number of Leased-in Fleet over the year;
- Average Number of Loaded Trips per Railcar declined 4% year on year to 25.0 trips in 2012 compared to the previous year.

Revenue from operating lease of rolling stock

Revenue from operating lease of rolling stock, which accounted for 10% of the Group's Adjusted Revenue in 2012, grew to USD 135.8 million, an increase of 77% compared to the previous year. This increase was driven by an increase in average rolling stock leased out over the year primarily reflecting (i) an increased number of rail tank cars leased out (largely due to the delivery of newly acquired rail tank cars); and (ii) a temporary lease out of acquired gondola cars subject to legacy leasing contracts as well as an increase in average leasing rates over the year.

Net Revenue from Engaged Fleet

Net Revenue from Engaged Fleet increased to USD 18.0 million* in 2012 compared to USD 0.7 million* in the previous year, reflecting the consolidation of Ferrotrans. This revenue 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 tariff – loaded trip") less the cost of engaging fleet from third-party rail operators (included in the EU IFRS line item "Services provided by other transportation organisations").

In 2012 the Freight Rail Turnover generated by Engaged Fleet amounted to 21.2 billion tonnes-km (15% of the Group's Freight Rail Turnover) compared to 2.0 billion tonnes-km in 2011 (2% of the Group's Freight Rail Turnover).

11. Defined as the sum of the following EU IFRS line items: "Railway transportation-operators services (tariff borne by the Group)" and "Railway transportation-operators services (tariff borne by the client)".

Cost of sales, selling and marketing costs and administrative expenses

In 2012 the Group's total cost of sales, selling and marketing costs and administrative expenses was USD 1,579.0 million, an increase of 21% compared to the previous year.

The following table provides a breakdown of cost of sales, selling and marketing costs and administrative expenses for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m	Change USD m	Change %
Cost of sales	1,210.8	1,450.2	239.4	20%
Selling and marketing costs	3.1	4.0	0.9	30%
Administrative expenses	90.3	124.7	34.4	38%
Total cost of sales, selling and marketing costs and administrative expenses	**1,304.2**	**1,579.0**	**274.7**	**21%**

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:

	2011 USD m	2012 USD m	Change USD m	Change %
Total cost of sales, selling and marketing costs and administrative expenses	**1,304.2**	**1,579.0**	**274.7**	**21%**
Minus				
Infrastructure and locomotive tariffs – loaded trips	556.0	681.7	125.7	23%
Services provided by other transportation organisations	27.5	110.6	83.2	303%
Adjusted Total Cost of Sales, Selling and Marketing Costs and Administrative Expenses	**720.7***	**786.6***	**65.9**	**9%**
Total Operating Cash Costs	**644.3***	**662.8***	**18.5**	**3%**
Empty Run Costs	233.8*	253.9*	20.1	9%
Repairs and maintenance	76.2	104.1	27.8	36%
Employee benefit expense	62.2	82.1	19.9	32%
Operating lease rentals – rolling stock	132.6	61.6	(71.0)	-54%
Infrastructure and Locomotive Tariffs – Other Tariffs	38.1*	42.0*	3.9	10%
Fuel – locomotives	27.7	31.5	3.8	14%
Engagement of locomotive crews	12.7	12.2	(0.5)	-4%
Legal, consulting and other professional fees	9.3	7.0	(2.4)	-26%
Other Operating Cash Costs	51.7*	68.5*	16.9	33%
Total Operating Non-Cash Costs	**76.4***	**123.8***	**47.4**	**62%**
Depreciation of property, plant and equipment	75.1	113.0	38.0	51%
Amortisation of intangible assets	0.2	7.7	7.6	4,220%
Impairment charge for receivables	0.1	0.9	0.8	658%
Loss on sale of property, plant and equipment	1.2	2.1	0.9	70%
Reversal of impairment charge for property, plant and equipment	(0.2)	–	0.2	n/a

Financial review continued

The Group's total cost of sales, selling and marketing costs and administrative expenses adjusted for "pass through" items "Infrastructure and locomotive tariffs – loaded trips" and "Services provided by other transportation organisations" increased year on year by 9% to USD 786.6 million* in 2012, reflecting the factors described below.

Infrastructure and locomotive tariffs – loaded trips

Infrastructure and locomotive tariffs – loaded trips is in principle a "pass through" item for the Group[12] and is reflected in equal amounts in both the Group's revenue and cost of sales. Infrastructure and locomotive tariffs – loaded trips increased 23% to USD 681.7 million in 2012 compared to the previous year predominantly reflecting the increase in the Group's business volumes, in particular those due to the consolidation of Ferrotrans.

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, which are reflected equally in both the Group's revenue and cost of sales. In 2012 "Services provided by other transportation organisations" increased to USD 110.6 million from USD 27.5 million in the previous year reflecting the consolidation of Ferrotrans and related increase in volumes of operations with Engaged Fleet.

Total Operating Cash Costs

The Group's Total Operating Cash Costs increased 3% to USD 662.8 million* in 2012, compared to the previous year, reflecting 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" 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", "Loss on sale of property, plant and equipment" and "Reversal of impairment charge for property, plant and equipment".

The following table provides a breakdown of the Total Operating Cash Costs for the years ended 31 December 2012 and 2011.

	2012 % of total	2011 USD m	2012 USD m	Change USD m	Change %
Empty Run Costs	38%	233.8*	253.9*	20.1	9%
Repairs and maintenance	16%	76.2	104.1	27.8	36%
Employee benefit expense	12%	62.2	82.1	19.9	32%
Operating lease rentals – rolling stock	9%	132.6	61.6	(71.0)	-54%
Infrastructure and Locomotive Tariffs – Other Tariffs	6%	38.1*	42.0*	3.9	10%
Fuel – locomotives	5%	27.7	31.5	3.8	14%
Engagement of locomotive crews	2%	12.7	12.2	(0.5)	-4%
Legal, consulting and other professional fees	1%	9.3	7.0	(2.4)	-26%
Other Operating Cash Costs	10%	51.7*	68.5*	16.9	33%
Total Operating Cash Costs	**100%**	**644.3***	**662.8***	**18.5**	**3%**

12. 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.

Empty Run Costs

Empty Run Costs (a non-GAAP financial measure) accounted for 38% of the Group's Total Operating Cash Costs in 2012. Empty Run Costs increased 9% to USD 253.9 million* in 2012 compared to the previous year, reflecting a combination of the following factors:

- A 6% increase[13] (in Russian rouble terms) in the RZD regulated tariff for the traction of empty railcars;
- An increase in the Group's business volumes (Average Rolling Stock Operated increased 11% year on year in 2012);
- An increase in the Share of Empty Run Kilometres paid by Globaltrans to 81% (2011: 78%) driven mainly by a decrease in the transportation of coal and the impact of the consolidation of Ferrotrans;
- Partially offset by the improvement in the Total Empty Run Ratio which decreased to 57% in 2012 compared to 62% in the previous year, driven primarily by the decrease in the Empty Run Ratio for gondola cars to 38% (2011: 41%).

Repairs and maintenance

Repairs and maintenance, which accounted for 16% of the Group's Total Operating Cash Costs in 2012, increased 36% to USD 104.1 million compared to the previous year, mostly reflecting the consolidation of Ferrotrans as well as cost inflation for repair works and spare parts and an increase in number of ad-hoc repairs mostly from the increase in the Group's fleet.

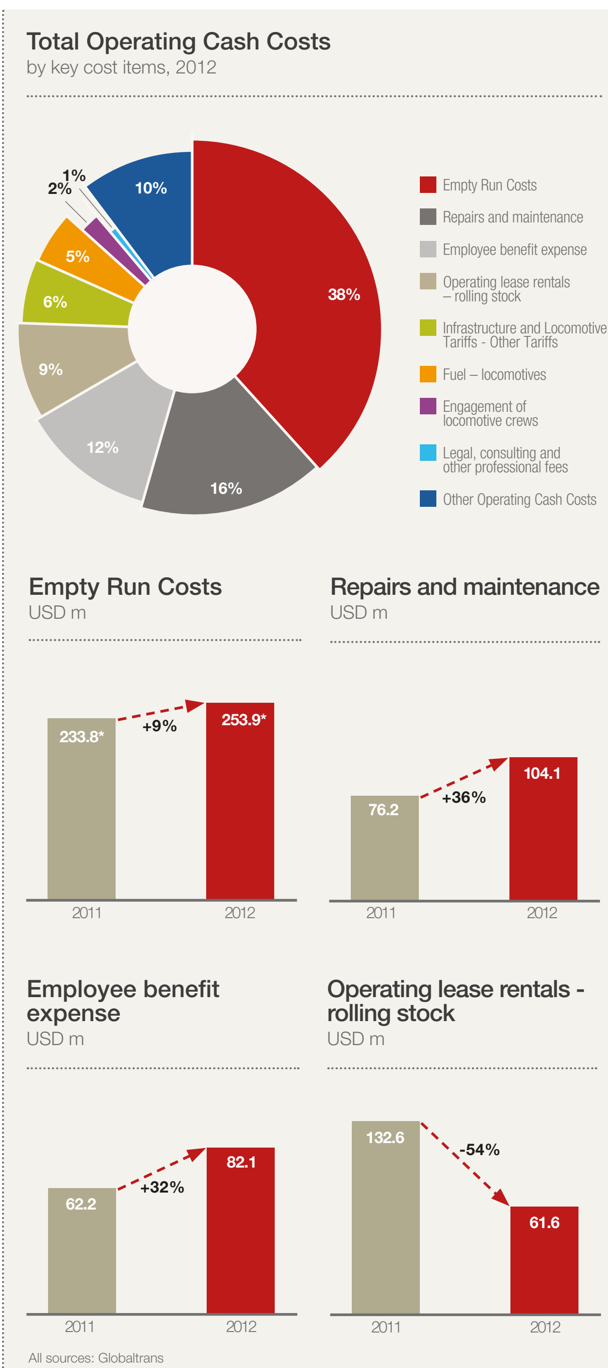
Employee benefit expense

Employee benefit expense, accounting for 12% of the Group's Total Operating Cash Costs, increased 32% to USD 82.1 million in 2012 compared to the previous year. This increase was primarily driven by (i) an increase in the average number of employees (largely through the consolidation of Ferrotrans) combined with (ii) general wage inflation and an increase in the unified social tax rate in Russia, as well as (iii) a rise in performance-driven bonuses awarded.

Operating lease rentals – rolling stock

Operating lease rentals – rolling stock, which accounted for 9% of the Group's Total Operating Cash Costs in 2012 decreased 54% to USD 61.6 million compared to the previous year. This decline reflected a significant reduction in the average number of railcars leased-in from third parties over the year which were substituted by the Owned Fleet gradually delivered over 2012.

The Group's Leased-in Fleet decreased 55% to 3,434 units as of the end of 2012 compared to 7,670 units as of the end of the previous year. The Group intends to continue using Leased-in Fleet as required chiefly to benefit from the operational flexibility that it provides.



13. According to Federal Tariff Service of Russia; from 1 January 2012.

Financial review continued

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 6% of the Group's Total Operating Cash Costs in 2012. Infrastructure and Locomotive Tariffs – Other Tariffs was USD 42.0 million* in 2012, up 10% 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.

Fuel – locomotives
Fuel – locomotive expenses, accounting for 5% of the Group's Total Operating Cash Costs, were USD 31.5 million in 2012, an increase of 14% compared to the previous year. This increase was primarily due to increases in fuel and engine oil prices.

Engagement of locomotive crews
Costs related to the engagement of locomotive crews from RZD decreased 4% to USD 12.2 million in 2012 compared to the previous year. This cost item accounted for 2% of the Group's Total Operating Cash Costs in 2012.

Legal, consulting and other professional fees
Legal, consulting and other professional fees, accounting for 1% of the Group's Total Operating Cash Costs in 2012, were USD 7.0 million, a decrease of 26% compared to the previous year.

Other Operating Cash Costs
Other Operating Cash Costs, which comprised 10% of the Group's Total Operating Cash Costs, increased 33% to USD 68.5 million* in 2012 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", "Auditors' remuneration" and other administrative expenses a part of "Other expenses", largely driven by the consolidation of Ferrotrans.

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 were USD 123.8 million* in 2012, an increase of 62% compared to the previous year. The main non-cash expense item of "Depreciation of property, plant and equipment" rose 51% year on year to USD 113.0 million in 2012, reflecting the increase in the number of the Group's Owned Fleet.

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

Adjusted EBITDA (non-GAAP financial measure)

The Group's Adjusted EBITDA increased 30% year on year to USD 658.2 million* in 2012. In Russian rouble terms, Adjusted EBITDA posted an increase of 38% year on year.

The Group's Adjusted EBITDA Margin[14] increased to 50%* in 2012 compared to 44%* in the previous year, primarily reflecting the substitution of Leased-in Fleet with newly acquired railcars.

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 assets", which are eliminated from Adjusted EBITDA.

The following table provides detail on Adjusted EBITDA for the years ended 31 December 2012 and 2011, and its reconciliation to EBITDA and profit for the year.

	2011 USD m	2012 USD m	Change USD m	Change %
Profit for the year	317.2	311.6	(5.6)	-2%
Plus/minus				
Income tax expense	82.6	100.7	18.1	22%
Finance costs – net	32.6	124.5	92.0	282%
Net foreign exchange transaction losses on borrowings and other liabilities	(2.0)	(26.6)	24.5	1,198%
Net foreign exchange transaction losses on cash and cash equivalents and other assets	–	(5.6)	5.6	n/a
Amortisation of intangible assets	0.2	7.7	7.6	4,220%
Depreciation of property, plant and equipment	75.1	113.0	38.0	51%
EBITDA	**505.6***	**625.4***	**119.8**	**24%**
Plus/minus				
Net foreign exchange transaction losses on borrowings and other liabilities	(2.0)	(26.6)	24.5	1,198%
Net foreign exchange transaction losses on cash and cash equivalents and other assets	–	(5.6)	5.6	n/a
Share of profit of associates	0.4	0.3	(0.1)	-21%
Other gains/(losses) – net	3.1	1.2	(2.0)	-63%
Loss on sale of property, plant and equipment	(1.2)	(2.1)	0.9	70%
Reversal of impairment charge for property, plant and equipment	0.2	–	(0.2)	n/a
Adjusted EBITDA	**505.1***	**658.2***	**153.1**	**30%**

14. Adjusted EBITDA Margin calculated as Adjusted EBITDA divided by Adjusted Revenue net of "pass through" item "Services provided by other transportation organisations".

Financial review continued

Finance income and costs

The following table provides a breakdown of finance income and costs for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m	Change USD m	Change %
Interest expense:				
Bank borrowings	(23.3)	(61.8)	38.4	165%
Non-convertible bond	(8.4)	(32.6)	24.1	286%
Finance leases	(4.3)	(2.9)	(1.5)	-34%
Other finance costs	(0.7)	(0.8)	0.1	22%
Total interest expense	(36.7)	(98.0)	61.3	167%
Net foreign exchange transaction losses on borrowings and other liabilities	(2.0)	(26.6)	24.5	1,198%
Finance cost on liability for minimum dividend distribution	(1.2)	–	(1.2)	n/a
Finance costs	**(39.9)**	**(124.5)**	**84.6**	**212%**
Interest income:				
Bank balances	0.6	2.3	1.7	264%
Short-term deposits	2.5	3.3	0.8	33%
Finance leases	4.2	–	(4.2)	n/a
Total interest income	**7.4**	**5.6**	**(1.7)**	**-23%**
Net foreign exchange transaction losses on cash and cash equivalents and other assets	–	(5.6)	5.6	n/a
Finance income	**7.4**	**–**	**(7.4)**	**n/a**
Net finance costs	**(32.6)**	**(124.5)**	**92.0**	**282%**

Finance income
In 2012 the Group recorded total interest income of USD 5.6 million which was offset by USD 5.6 million of net foreign exchange transaction losses on cash and cash equivalents and other assets.

Finance costs
Finance costs increased 212% or USD 84.6 million to USD 124.5 million in 2012 compared to the previous year. This increase reflects the combination of the following factors:

- Total interest expense increased 167% or USD 61.3 million to USD 98.0 million in 2012 compared to the previous year. This increase was driven by increased borrowings and non-convertible bonds incurred to finance the Group's significant business expansion. For more information on the Group's business expansion 2012 please see "Capital Expenditure";
- In 2012 the Group recorded USD 26.6 million of "Net foreign exchange transaction losses on borrowings and other liabilities", which was recognised in the first half of 2012 and largely driven by the depreciation of the Russian rouble against the US dollar in the second quarter of 2012 affecting US dollar-denominated debt facilities.

Profit before income tax

Profit before income tax increased 3% to USD 412.3 million in 2012 compared to the previous year. This increase was driven primarily by a USD 104.5 million year on year increase in operating profit, which was partially offset by a USD 92.0 million year on year increase in net finance costs.

Income tax expense

Income tax expense increased 22% year on year to USD 100.7 million in 2012 reflecting (i) an increase in profit before income tax as well as (ii) the recognition of a deferred tax provision in the amount of USD 11.0 million 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 is no longer probable that dividend distributions would only be made from future profits of that subsidiary.

The weighted average applicable tax rate was 19.9% in 2012 (2011: 18.4%). The increase in the weighted average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have a zero applicable tax rate.

Liquidity and capital resources

The business of freight rail transportation is capital intensive. In 2012 the Group's liquidity needs arose primarily from the purchase of rolling stock and the acquisition of Ferrotrans, as well as general working capital requirements. The Group was able to comfortably meet its liquidity and capital expenditure needs from operating cash flow, cash and cash equivalents available at 31 December 2011 as well as proceeds from borrowings, public debt instruments and a follow-on offering of GDRs undertaken in July 2012.

The Group manages its liquidity based on expected cash flows. As at 31 December 2012, the Group had Net Working Capital of USD 143.1 million*. Utilising its anticipated operating cash flow, its borrowings and proceeds from the recent follow-on offering, the Group believes that it has sufficient working capital to enable it to operate successfully and expand its business when appropriate opportunities arise.

Financial review continued

Cash flows

The following table sets out the principal components of the Group's consolidated cash flow statement for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m
Cash flows from operating activities	**508.1**	**659.4**
Changes in working capital:		
Inventories	(1.6)	(4.2)
Trade and other receivables	3.7	(24.7)
Trade and other payables	(5.1)	19.4
Cash generated from operations	505.2	649.9
Tax paid	(63.4)	(81.8)
Net cash from operating activities	**441.8**	**568.1**
Cash flows from investing activities		
Acquisition of subsidiaries – net of cash acquired	–	(572.9)
Advance payment for acquisition of subsidiary – restricted cash	–	(10.0)
Purchases of property, plant and equipment	(173.9)	(736.9)
Proceeds from disposal of property, plant and equipment	4.5	0.9
Interest received	7.3	5.7
Receipts from finance lease receivable	35.9	–
Net cash used in investing activities	**(126.2)**	**(1,313.2)**
Cash flows from financing activities		
Net cash inflows/(outflows) from borrowings and financial leases[15]	(125.9)*	684.1
Interest paid	(36.5)	(90.2)
Acquisition of non-controlling interests	(81.7)	–
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	(26.1)	(34.2)
Dividends paid to Company's shareholders	(58.5)	(98.9)
Net cash from/(used in) financing activities	**(328.7)**	**808.0**
Net increase/(decrease) in cash and cash equivalents	(13.1)	62.8
Exchange losses on cash and cash equivalents	(4.1)	(4.4)
Cash, cash equivalents and bank overdrafts at beginning of year	137.0	119.7
Cash, cash equivalents and bank overdrafts at end of year	**119.7**	**178.2**

Net cash from operating activities

Net cash generated from operating activities increased 29% to USD 568.1 million in 2012, compared to the previous year. This was the result of the following factors:

- Cash generated from operations increased 29% to USD 649.9 million, supported by the strong performance of the underlying business;
- A 29% year on year increase in tax paid in 2012 to USD 81.8 million, driven primarily by increase in the Group's profits.

Net cash used in investing activities

Net cash used in investing activities increased by USD 1,187.0 million to USD 1,313.2 million in 2012 compared to the previous year, primarily as a result of a significant increase in the Group's investing activities: (i) USD 563.0 million year on year increase in the purchases of property, plant and equipment; and (ii) the acquisition of subsidiaries – net of cash acquired to the amount of USD 572.9 million related to the acquisition of Ferrotrans.

Net cash used from/(used in) financing activities

Net cash from financing activities was USD 808.0 million in 2012 compared to net cash used in financing activities of USD 328.7 million in the previous year. This change was primarily due to the combination of the following factors:

- Net cash inflows from borrowings and finance leases of USD 684.1 million*[15] reflecting significantly increased investing activities;
- Interest paid of USD 90.2 million, an increase of USD 53.7 million year on year, reflecting an increase in borrowings and non-convertible unsecured bonds;
- Purchase of treasury shares for USD 43.2 million (these treasury shares have been sold by the Company as part of the follow-on offering in July 2012);
- The combination of proceeds from the issue of shares – net of expenses in amount of USD 330.3 million and proceeds from the sale of treasury shares of USD 60.0 million as part of a follow-on offering undertaken in July 2012;
- Payment of USD 34.2 million of dividends to non-controlling interests in subsidiaries compared to USD 26.1 million in 2011;
- Payment of USD 98.9 million in dividends to shareholders of the Company, compared to USD 58.5 million paid in the previous year.

Capital expenditure

In 2012 the Group significantly increased its investments in business expansion. The Group's Owned Fleet increased by 47% to 58,501 units at 31 December 2012 compared to the end of 2011 as a combination of organic growth and the acquisition of Ferrotrans.

Organic growth

In 2012, the Group took delivery of 10,424 units of rolling stock (8,969 gondola cars, 1,450 rail tank cars and 5 locomotives)[16]. The Group's capital expenditure for the acquisition of rolling stock on an accrual basis (including capitalised repairs and rolling stock leased-in under finance leases) was USD 809.7 million in 2012.

Acquisition of Ferrotrans

In May 2012 the Group acquired a 100% interest in Ferrotrans (renamed from Metalloinvesttrans), a former "captive" freight rail operator of Metalloinvest with c.8,300 units of rolling stock in ownership. In connection with this acquisition, Ferrotrans has entered into three-year freight rail service contracts with the Metalloinvest entities for Ferrotrans to manage its freight rail transportation logistics. The total cash consideration for the acquisition was USD 573.5 million.

*

15. 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".
16. 89 units of rolling stock were disposed of during 2012.

Financial review continued

Capital resources

As of 31 December 2012, the Group's financial indebtedness consisted of bank borrowings, non-convertible unsecured bond issues and finance lease liabilities to an aggregate principal amount of USD 1,075.1 million (including accrued interest of USD 13.4 million*), representing an increase of USD 696.0 million compared to the end of 2011. This increase was primarily due to new borrowings to finance, in part, the purchase of rolling stock and the acquisition of Ferrotrans.

The following table provides detail on the Group's financial indebtedness structure as of 31 December 2012.

	As of 31 December 2012 USD m	% of total
Bank borrowings	595.2	55%
Non-convertible unsecured bonds	398.7	37%
Finance lease liabilities	81.1	8%
Total	**1,075.1**	**100%**

With a cash and cash equivalents of USD 178.2 million at 31 December 2012, the Group's Net Debt increased by USD 638.6 million to USD 896.9 million* as at 31 December 2012. The Group's Net Debt adjusted for the MMK-Trans (renamed to Steeltrans) transaction[17] consideration (closed in February 2013) is estimated at USD 1,231.9 million*.

In 2012 Globaltrans continued to operate with moderate leverage with a Group Net Debt to Adjusted EBITDA ratio of 1.4x* at 31 December 2012.

Globaltrans continued to improve the currency structure of its debt and Russian rouble-denominated borrowings accounted for 91% of the Group's debt portfolio as of the end of 2012.

The carrying amounts were denominated in the following currencies as of 31 December 2012 and 31 December 2011.

	As of 31 December 2011 USD m	% of total	As of 31 December 2012 USD m	% of total
Russian rouble	299.1	79%	975.1	91%
US dollar	79.9	21%	98.0	9%
Euro	0.1	0%	2.0	0%

The Group's weighted average effective interest rate increased to 9.1%* as at 31 December 2012 compared to 8.4%* as at 31 December 2011, principally reflecting the significant increase in the share of Russian rouble-denominated borrowings, particularly unsecured bonds.

In addition, the Group continued executing its strategy to reduce financial risk with the share of borrowings with a fixed interest rate amounting to 75%* at 31 December 2012 compared to 68%* at the end of 2011.

17. Simple addition of Steeltrans enterprise value of USD 335 million* to Group's Net Debt as of 31 December 2012.

The following table gives the maturity profile of the Group's borrowings (including accrued interest of USD 13.4 million*) as of 31 December 2012.

	As of 31 December 2012 USD m
2013	237.9*
2014	227.9*
2015-2017	609.3*
Total	**1,075.1**

Related party transactions

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

Transportation Investments Holding Limited ("TIHL")[18] and Envesta Investments Limited ("EIL")[19] together with their affiliated entities as at 31 December 2012 owned 34.5% and 10.8%[20] of the Company's shares respectively. 54.5% of the shares represent the free float and are held by external investors through 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 this Annual Report and financial statements TIHL is considered as the Parent of the Group until 17 July 2012 and an entity exercising significant influence over the Group thereafter.

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 2012" of this Annual Report).

18. From 22 March 2013, Konstantin Nikolaev, Nikita Mishin and Andrey Filatov each hold 11.5% through their respective SPVs.
19. Envesta Investments Limited is beneficially owned by Sergey Maltsev, Chief Executive Officer and Executive Director of Globaltrans, and Alexander Eliseev, Non-Executive Director of Globaltrans.
20. Including the holding of the Global Depositary Receipts of the Company.

Financial review continued

The following table sets forth the summary of transactions which were carried out with related parties for the years ended 31 December 2012 and 2011.

	2011 USD m	2012 USD m
Sales of services	156.4	163.7
Purchases of services	27.9	29.8
Additions and of property, plant and equipment	2.0	1.5
Key management salaries and other short-term employee benefits[21]	21.1	26.0

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

	2011 USD m	2012 USD m
Trade and other receivables	14.8	16.5
Prepayments	2.8	2.8
Trade payables	0.5	0.5
Advances	1.4	1.2

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

	2011 USD m	2012 USD m
Group as a lessor	0.015	0.026
Group as a lessee	21.1	9.4

21. 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 USD 7.9 million (2011: USD 2.4 million).

Principal risks and uncertainties

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

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 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 or otherwise in Russia or such countries, could negatively impact the Group's business and its growth prospects.

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

For detailed information on the risk management process within Globaltrans, please refer to "Risk management", included in the "Governance" section of this Annual Report on page 66.

Principal risks and uncertainties continued

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 legislation and report them to the Group's management and Board of Directors.

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 has been 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 rail transportation market and the reform of the railway industry. Any unexpected changes to the regulatory environment of the Russian rail 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 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 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.

Competition and customer concentration

Description of risks
The Russian rail transportation market is becoming increasingly competitive as a result of further deregulation and privatisation. Recently RZD privatised 100% of JSC Freight One, resulting in the private ownership of approximately 75% of the fleet in Russia. In addition, RZD completed the transfer of its commercial fleet into its wholly-owned subsidiary JSC Federal Freight; as a result, the majority of the commercial fleet in Russia is no longer subject to tariff regulation, which could lead to greater price competition for the Group.

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 72% of the Group's Net Revenue from Operation of Rolling Stock in 2012.

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. About 85%[22] of the Group's Owned Fleet is now either covered by long-term service contracts, or exposed to resilient oil products and oil transportation (rail tank cars).

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 dependent upon RZD to provide it with locomotive crews and for locomotive services on routes where its own locomotives do not operate. The Group is also dependent upon RZD to issue permits for it to operate locomotives and to approve its use of locomotives for particular routes.

22. Owned Fleet of Globaltrans as of the end of 2012 including the fleet of Steeltrans (renamed from MMK-Trans); compared to the estimated number of railcars required to service contracts at current input/output volumes presented for transportation by rail by Metalloinvest (100%) and MMK (70%) and the number of rail tank cars in ownership.

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.

In 2011, the Russian Government took further important steps towards expanding competition in the locomotive traction segment by establishing the infrastructure tariff for private carriers operating their own locomotives. The next steps include developing the access regulations, along with a technical and operational framework.

Operational: The risks that influence the Group's operational efficiency

Infrastructure

Description of risks
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

Principal risks and uncertainties continued

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 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
Although there are currently no pending material legal actions involving the Group, adverse determination of any future potential legal actions involving the Company or its subsidiaries could have an adverse effect on the Group.

Controls and mitigating factors
The Group monitors its compliance with the terms of its agreements. Standard forms of agreements are used for transportation services, and various controls are in place to ensure that the terms of agreements are adhered to. All contracts are subject to a rigorous review by all the concerned Group functions and a formal approval process prior to execution.

Fiscal 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 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 2012, the Group had about 91% 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. 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 2012, the portion of total debt with a fixed interest rate amounted to 75%*. 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. These accounted for over 54%* of the Group's trade and other receivables on 31 December 2012.

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	2011	2012	Change	% change
Owned Fleet				
Gondola cars	21,797	38,534	16,737	77%
Rail tank cars	17,570	19,076	1,506	9%
Hopper cars	370	712	342	92%
Locomotives	53	58	5	9%
Flat cars	120	121	1	1%
Total	**39,910**	**58,501**	**18,591**	**47%**
Owned Fleet as % of Total Fleet	84%	94%	–	–
Leased-in Fleet				
Gondola cars	4,810	345	(4,465)	-93%
Rail tank cars	2,857	3,089	232	8%
Hopper cars	0	0	0	0%
Locomotives	3	0	(3)	-100%
Flat cars	0	0	0	0%
Total	**7,670**	**3,434**	**(4,236)**	**-55%**
Leased-in Fleet as % of Total Fleet	16%	6%	–	–
Total Fleet (Owned Fleet plus Leased-in Fleet)	**47,580**	**61,935**	**14,355**	**30%**
Total Fleet by type of rolling stock, %				
Gondola cars	56%	63%	–	–
Rail tank cars	43%	36%	–	–
Hopper cars	1%	1%	–	–
Locomotives	0%	0%	–	–
Flat cars	0%	0%	–	–
Total	**100%**	**100%**	–	–
Rolling stock leased-out under operating leases				
Gondola cars	1,089	1,235	146	13%
Rail tank cars	5,551	7,509	1,958	35%
Hopper cars	370	463	93	25%
Locomotives	0	0	0	0%
Flat cars	20	20	0	0%
Total	**7,030**	**9,227**	**2,197**	**31%**
Leased-out Fleet as % of Total Fleet	15%	15%	–	–
Average age of Owned Fleet				
Gondola cars	5.5	5.8	–	–
Rail tank cars	9.2	9.5	–	–
Hopper cars	5.0	6.5	–	–
Locomotives	6.9	7.1	–	–
Flat cars	2.7	3.8	–	–
Total	**7.1**	**7.0**	**–**	**–**

Operation of rolling stock (incl. Engaged Fleet)	2011	2012	Change	% change
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**49.8**	**75.7**	**26.0**	**52%**
Ferrous metals	25.5	30.0	4.5	18%
Scrap metal	2.9	2.1	(0.8)	-28%
Iron ore	21.4	43.7	22.3	104%
Oil products and oil	**30.9**	**30.3**	**(0.6)**	**-2%**
Coal (incl. coke)	**19.4**	**18.4**	**(1.0)**	**-5%**
Construction materials	**4.9**	**7.9**	**2.9**	**60%**
Crushed stone	2.9	6.0	3.2	109%
Cement	0.4	0.3	(0.2)	-38%
Other construction materials	1.6	1.6	(0.1)	-3%
Other	**5.6**	**5.5**	**(0.1)**	**-2%**
Total	**110.6**	**137.8**	**27.3**	**25%**
Freight Rail Turnover by cargo type, %				
Metallurgical cargoes (incl. ferrous metal, scrap metal and iron ore)	45%	55%	–	–
Oil products and oil	28%	22%	–	–
Coal (incl. coke)	18%	13%	–	–
Construction materials (incl. cement)	4%	6%	–	–
Other	5%	4%	–	–
Total	**100%**	**100%**	**–**	**–**
Transportation Volume, million tonnes				
Metallurgical cargoes	**23.9**	**37.0**	**13.1**	**55%**
Ferrous metals	11.6	14.5	2.9	25%
Scrap metal	3.1	2.5	(0.6)	-19%
Iron ore	9.1	20.0	10.9	119%
Oil products and oil	**24.7**	**25.1**	**0.4**	**2%**
Coal (incl. coke)	**11.1**	**10.0**	**(1.1)**	**-10%**
Construction materials	**4.9**	**7.0**	**2.1**	**43%**
Crushed stone	3.2	5.5	2.3	74%
Cement	0.4	0.2	(0.2)	-52%
Other construction materials	1.3	1.3	0.0	-3%
Other	**5.0**	**4.8**	**(0.2)**	**-3%**
Total	**69.6**	**83.9**	**14.3**	**21%**
Engaged Fleet				
Net Revenue from Engaged Fleet, USD million	**0.7***	**18.0***	**17.4**	**2,570%**

Selected operational information continued

Operation of rolling stock (excl. Engaged Fleet)	2011	2012	Change	% change
Freight Rail Turnover, billion tonnes-km				
Metallurgical cargoes	**48.4**	**55.7**	**7.2**	**15%**
Ferrous metals	24.3	26.4	2.0	8%
Scrap metal	2.8	2.1	(0.8)	-27%
Iron ore	21.3	27.2	6.0	28%
Oil products and oil	**30.9**	**30.3**	**(0.6)**	**-2%**
Coal (incl. coke)	**18.9**	**17.5**	**(1.4)**	**-7%**
Construction materials	**4.9**	**7.9**	**2.9**	**59%**
Crushed stone	2.9	6.0	3.1	109%
Cement	0.4	0.3	(0.2)	-38%
Other construction materials	1.6	1.6	(0.1)	-4%
Other	**5.5**	**5.3**	**(0.2)**	**-3%**
Total	**108.6**	**116.7**	**8.0**	**7%**
Transportation Volume, million tonnes				
Metallurgical cargoes	**23.1**	**28.0**	**4.9**	**21%**
Ferrous metals	11.1	12.2	1.0	9%
Scrap metal	3.1	2.5	(0.6)	-18%
Iron ore	8.9	13.4	4.4	50%
Oil products and oil	**24.7**	**25.1**	**0.4**	**2%**
Coal (incl. coke)	**10.7**	**9.5**	**(1.2)**	**-11%**
Construction materials	**4.9**	**6.9**	**2.1**	**43%**
Crushed stone	3.2	5.5	2.3	74%
Cement	0.4	0.2	(0.2)	-52%
Other construction materials	1.3	1.3	0.0	-3%
Other	**5.0**	**4.7**	**(0.3)**	**-5%**
Total	**68.4**	**74.3**	**5.9**	**9%**
Average Rolling Stock Operated, units				
Gondola cars	27,183	31,656	4,473	16%
Rail tank cars	14,869	14,892	23	0%
Hopper cars	174	144	(30)	-17%
Locomotives	37	37	(1)	-2%
Flat cars	99	96	(4)	-4%
Total	**42,363**	**46,825**	**4,462**	**11%**
Average Number of Loaded Trips per Railcar				
Gondola cars	25.0	23.5	(1.4)	-6%
Rail tank cars	28.3	28.2	(0.1)	0%
Hopper cars	19.6	19.5	(0.1)	0%
Flat cars	13.9	12.1	(1.7)	-12%
Total	**26.1**	**25.0**	**(1.1)**	**-4%**
Average Distance of Loaded Trip, km				
Gondola cars	1,811	1,769	(43)	-2%
Rail tank cars	1,237	1,201	(36)	-3%
Hopper cars	903	568	(336)	-37%
Flat cars	2,118	1,852	(267)	-13%
Total	**1,589**	**1,561**	**(28)**	**-2%**

Operation of rolling stock (excl. Engaged Fleet)	2011	2012	Change	% change
Average Price per Trip				
Average Price per Trip, USD	967	992	25	3%
Average Price per Trip, RUB	28,411	30,813	2,402	8%
Net Revenue from Operation of Rolling Stock by cargo type, USD million				
Metallurgical cargoes	**381.8***	**433.9***	**52.1**	**14%**
Ferrous metals	253.0*	269.3*	16.3	6%
Scrap metal	34.0*	28.8*	(5.2)	-15%
Iron ore	94.8*	135.7*	40.9	43%
Oil products and oil	**460.1***	**493.2***	**33.0**	**7%**
Coal (incl. coke)	**116.1***	**104.2***	**(11.9)**	**-10%**
Construction materials (incl. cement)	**41.8***	**66.5***	**24.8**	**59%**
Other	**67.8***	**61.2***	**(6.6)**	**-10%**
Total	**1,067.6***	**1,159.0***	**91.4**	**9%**
Net Revenue from Operation of Rolling Stock by cargo type, %				
Metallurgical cargoes (incl. ferrous metal, scrap metal and iron ore)	36%	37%	–	–
Oil products and oil	43%	43%	–	–
Coal (incl. coke)	11%	9%	–	–
Construction materials (incl. cement)	4%	6%	–	–
Other	6%	5%	–	–
Total	**100%**	**100%**	**–**	**–**
Net Revenue from Operation of Rolling Stock by largest clients (incl. their affiliates and suppliers), %				
TNK-BP	21%	21%	–	–
MMK	12%	13%	–	–
Metalloinvest	9%	13%	–	–
Evraz	8%	7%	–	–
Gazpromneft	5%	6%	–	–
Lukoil	5%	4%	–	–
Rosneft	3%	2%	–	–
Severstal	3%	2%	–	–
Mechel	2%	2%	–	–
TMK	2%	1%	–	–
Other (incl. small and medium enterprises)	29%	28%	–	–
Empty Run Ratio				
Gondola cars	41%	38%	–	–
Rail tank cars, hopper cars and flat cars	111%	105%	–	–
Total Empty Run Ratio	**62%**	**57%**	**–**	**–**
Empty Run Costs, USD million	**233.8***	**253.9***	**20.1**	**9%**
Share of Empty Run Kilometres Paid by Globaltrans	**78%**	**81%**	**–**	**–**

Definitions

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

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

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

Adjusted Profit For The Year (a non-GAAP financial measure) which represents Profit for the year adjusted for "Net foreign exchange transaction losses on borrowings and other liabilities" and "Net foreign exchange transaction losses on cash and cash equivalents and other assets".

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".

Adjusted Total Cost of Sales, Selling and Marketing Costs and Administrative Expenses (a non-GAAP financial measure) represents total cost of sales, selling and marketing costs and administrative expenses net of 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).

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

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 losses on borrowings and other liabilities" and "Net foreign exchange transaction losses on cash and cash equivalents and other assets"), "Depreciation of property, plant and equipment" and "Amortisation of intangible assets".

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

Empty Run Costs (a non-GAAP financial measure meaning costs payable to RZD for forwarding empty railcars) is derived from management accounts and presented as part of the "Infrastructure and locomotive tariffs: empty run trips, 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).

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.

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.

Infrastructure and Locomotive Tariffs – Other Tariffs (a non-GAAP financial measure) is presented as part of the ''Infrastructure and locomotive tariffs – empty run trips, other tariffs'' component of "Cost of sales" reported under EU IFRS.

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 as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume of respective cargoes. It includes the volumes transported by Engaged Fleet unless otherwise stated.

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 tariff – loaded trip") 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 and other taxes recoverable", less the sum of the current portions of "Trade payables to third parties", "Trade payables to related parties", "Advances from customers for transportation services", "Advances from related parties for transportation services", "Accrued expenses", "Other payables to related parties" and "Other payables to third parties".

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.

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

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

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

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

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

The Group's consolidated financial statements for the year ended 31 December 2012 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 2012 are included in Appendix 2 "Directors' report and parent company financial statements for the year ended 31 December 2012".

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

The consolidated financial statements are presented in US dollars, which the Group's management believes to be the most useful for readers of the financial statements. The functional currency of the Company, its Cyprus and Russian subsidiaries is the rouble. The Estonian and Finnish subsidiaries have the euro as their functional currency. The Ukrainian subsidiary of the Company has the Ukrainian hryvnia as its functional currency.

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

Certain comparable financial and operational information included into this Annual Report has been represented for 2011 to conform with changes in the presentation and accounting for operations with Engaged Fleet for 2012. As a result, the cost of services provided by other transportation organisations is now shown as a separate line item within "Cost of sales" whereas previously it was included within "Empty run trips, other tariffs and services provided by other transportation organisations" in "Cost of sales". Adjusted Revenue and Total Operating Cash Costs are now calculated net of the "pass through" item "Services provided by other transportation organisations". Adjusted EBITDA Margin is now calculated as Adjusted EBITDA divided by Adjusted Revenue net of the "pass through" item "Services provided by other transportation organisations". All operational information for 2011 unless otherwise stated has been represented to exclude Engaged Fleet operations.

Non-GAAP financial information
In this Annual Report the Group has used certain measures not recognised by EU IFRS or IFRS (referred to as "non-GAAP measures"). Management believes that these non-GAAP measures provide valuable information to readers because they enable the reader to focus more directly on the underlying day-to-day performance of the Group's business and are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the freight rail transportation sector. The following non-GAAP measures have been used in this Annual Report as supplemental measures of the Group's operating performance: Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Revenue, EBITDA, Empty Run Costs, Net Debt to Adjusted EBITDA ratio, Net Revenue from Engaged Fleet, Net Revenue from Operation of Rolling Stock, Net Working Capital, Operating Cash Costs, Operating Non-Cash Costs, Infrastructure and Locomotive Tariffs – Other Tariffs. 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 58-59 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 2012 is provided on pages 54-57 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 58-59 of this Annual Report.

Market Share data has been calculated using the Group's own information as the numerator and information published by the Federal State Statistics Service of the Russian Federation ("Rosstat") as the denominator. The Group's Market Share is calculated as a percentage of the overall Russian freight rail transportation volume or as a percentage of overall Russian freight rail transportation volume of respective cargoes. It includes the volumes 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 for the year ended 31 December 2012" 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

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

Globaltrans' Board of Directors believes that good corporate governance is essential to ensuring the successful running of the Group. It is therefore committed to maintaining high standards of governance throughout the Company and its subsidiaries and 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. As a result of these measures, the Group believes it offers an open, responsible working environment, ensuring that it is able to continue to deliver a strong performance.

Corporate governance policies

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

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 2010, the Board supplemented its Code of Corporate Governance with a corporate policy on the treatment of the rights of its minority shareholders; this aims to ensure fair treatment of the rights of non-controlling shareholders of the Company.

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

Board of Directors

Globaltrans is managed by its Board of Directors (the "Board"), which is responsible to the shareholders for achieving the Group's strategic objectives and for delivering sustainable growth in shareholder value. The Group's Directors are therefore expected to act in a manner that promotes the long-term success of the Company for the benefit of shareholders.

The Board's role is to:

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

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

The Board understands the need for an appropriate balance between Executive and Non-Executive Directors, together with the presence of Independent Directors, in order to represent the interests of all shareholders and to govern the Group in the most effective way. The Non-Executive Directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, business management and strategic planning. A brief description of Board members' biographies are presented on the following pages (68-71).

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

During the period until April 2013, the Board comprised seven members, four of whom were Non-Executive Directors (including the Chairman). Two of the Non-Executive Directors are considered to be independent, in that the Board considers that they are able to exercise

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

objective business judgement and provide independent challenge to management in order to support the best interests of the Company, and that there are no relationships with the Company, its related companies or officers that could interfere with, or be reasonably perceived to interfere with, their judgement.

While all Directors share an equal responsibility for the stewardship of the Company, the Non-Executive Directors perform an essential role in safeguarding the long-term interests of shareholders. They actively participate in the development of strategic objectives and monitor the performance of executive management in achieving these objectives. Their involvement is particularly important in ensuring that the strategies proposed by management are constructively challenged, fully discussed and examined, and that they take account of the long-term interests, not just of shareholders, but also of employees, customers, suppliers and the communities in which the Company and its subsidiaries conduct its business. The Group endeavours to ensure that the investments of minority shareholders are fairly represented through the representation of Independent Directors.

The Nomination Committee reviews the size and composition of the Board on an annual basis, and in March 2013 came to the conclusion that the size of the Board needed to be expanded to reflect the increased business activity of the Group and its future expansion plans along with the additional demands that this places on the Directors in terms of expertise and responsibility. The new Board members bring with them competencies and experience in the areas of international commodity markets, oil products and oil rail transportation, rolling stock procurement as well as financial management. Moreover, the Committee proposed to increase the number of Independent Directors to four.

The Company separates the positions of Chairman and Chief Executive Officer (CEO) to ensure an appropriate segregation of roles and a clear division of responsibilities.

- The Chairman, Mr. Michael Zampelas who took over from Mr. Alexander Eliseev in March 2013, is responsible for leadership of the Board, ensuring its effectiveness and setting its agenda. He is also responsible for keeping the Board properly informed and consulted on all decisions reserved to it.

- The CEO, Mr. Sergey Maltsev, is responsible for the day-to-day management of the Group and its operations and for implementing the strategy laid down by the Board.

The Board's performance in 2012

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

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

Board activities in 2012

In 2012 the Board met formally 21 times to review current performance and to discuss and approve important business decisions. Matters considered by the Board during the year included:

Regular meetings

- Review of the operating and financial performance of the Group.

- Approval of the annual budget.

- Approval of the annual and semi-annual financial statements and the respective regulatory announcements.

- Review of the results of risk assessments.

- Approval of the AGM agenda, including dividend proposals and Board reappointments.

Ad-hoc meetings

- Approval of acquisition by the Group of two freight rail operators (Ferrotrans, renamed from Metalloinvesttrans, and Steeltrans, renamed from MMK-Trans).

- Approval of the follow-on offering of ordinary shares in the form of GDRs and sale of treasury shares allowing the Company to raise USD 400 million in gross proceeds to strengthen its balance sheet and enable the Group to pursue the further acquisition opportunities.

- Approval of material borrowings by subsidiaries, including the issue of non-convertible RUB denominated bonds by its Russian subsidiary and provision of the intra-group guarantees.

Board evaluation

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

Board and management remuneration

Directors serve on the Board pursuant to the letters of appointment. Such letters of appointment specify the terms of appointment and the remuneration of Directors. Appointments are for one year.

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

The shareholders of the Company approved the remuneration of the members of the Board at the Annual General Meeting of shareholders held on 4 May 2012.

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

Dealings in securities

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

The attendance of Directors during 2012 is set out in the table below.

	Board of Directors		Audit Committee		Remuneration Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Alexander Eliseev	21	15	–	–	1	1	–	–
Sergey Maltsev	21	13	–	–	–	–	–	–
Michael Zampelas	21	21	7	7	1	1	1	1
Johann Franz Durrer	21	21	–	–	1	1	1	1
Mikhail Loganov	21	18	–	–	–	–	1	1
Konstantin Shirokov	21	20	–	–	–	–	–	–
Elia Nicolaou	21	21	7	7	–	–	–	–

Board Committees

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

Audit Committee

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

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

The Audit Committee is also responsible for assessing the efficiency of the performance of the Chairman of the Board.

The Audit Committee met seven times in 2012, including three meetings attended by the external auditors of the Company. The principal issues that were considered during 2012 were:

- Review of the external auditor's letter to the Audit Committee following its full-year audit for 2011;
- Review of the financial statements of the Company and consolidated financial statements of the Group for the 2011 and interim financial results for the first three and six months of 2012, including significant financial reporting judgements made by management. The Committee recommended approval of the same to the Board;
- Review of the terms of appointment of the external auditor of the Company for the year 2012. The Committee recommended reappointment to the Board, which, in turn, proposed the reappointment of the external auditors to the Annual General Meeting of shareholders of the Company;
- Oversight of the reporting process and review of the audit plan;
- Review of regulatory announcements of the Group of a financial nature;
- Review of internal controls and risk management processes;
- 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 three Directors and meets at least once a year. The Nomination Committee is chaired by Dr. Durrer, the other members being Mr. Zampelas and Mr. Loganov. The Committee's remit is to prepare selection criteria and appointment procedures for members of the Board and to review on

a regular basis the structure, size and composition of the Board. In undertaking this role, the Committee refers to the skills, knowledge and experience required of the Board, given the Company's stage of development, and makes recommendations to the Board as to any changes. The Committee also considers future appointments in respect of the Board's composition and makes recommendations regarding the membership of the Audit and Remuneration Committees.

The Nomination Committee met once in 2012. The principal issues considered during the meetings were the review of the Annual Report for the year 2011 and the current composition of the Board and its Committees. It has also provided recommendations to the Board on the nomination of Directors prior to the Annual General Meeting of shareholders, which considered the appointment of Directors in 2012.

Remuneration Committee

The Remuneration Committee comprises three Directors and meets at least once a year. The Remuneration Committee is chaired by Dr. Durrer, and the other members are Mr. Zampelas and Mr. Eliseev. The Committee's responsibility is the determination and review of, among other matters, the remuneration of Executive Directors, and the review of the Company's remuneration policies. The remuneration of Independent Directors is a matter for the Chairman of the Board and the Executive Directors. No Director or manager may be involved in any decisions as to his/her own remuneration.

The Remuneration Committee met once in 2012 to discuss and consider the appropriateness of the level of remuneration of the Executive Directors of the Company and the senior management of the Group.

Risk management

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

Risks are defined as the possibility that an action or inaction would adversely affect the achievement of corporate goals. The Board has delegated the oversight of risk management to the Audit Committee.

In addition, it has delegated to the CEO responsibility for the effective and efficient implementation and maintenance of the risk management system. The Directors, through the Audit Committee, review the systems that have been established for this purpose and regularly review their effectiveness. The Board has adopted a Risk Management Policy that provides a consistent framework for the identification, assessment and management of risks. Globaltrans bases its risk management activity on a series of well-defined risk management principles, derived from experience, best practice and corporate governance principles.

The Group's risk management principles consist of nine interdependent components:

- **Enterprise-wide.** Risks that the Group is facing should be managed on an enterprise-wide basis as a continuous and developing process that runs throughout the Group's strategy and the implementation of that strategy;
- **Systematic and structured.** Risk management should involve recognised processes and activities in a systematic, methodical way that ensures that the results of risk management activities are reliable, robust and comparable;
- **Based on upside and downside approach.** Risk management should evaluate the potential upside and downside of all risks that can affect the Group. It should increase the probability of success and reduce both the probability of failure and the uncertainty of achieving the Group's overall objectives. Risk management activity should include the development and implementation of risk response actions to remove or reduce all risks the Group is facing, transfer them to a third party or accept them;
- **Forward-thinking approach.** Risk management should be forward-thinking. It should involve identifying and preparing for what might happen rather than always managing retrospectively. Risk management should encourage the Group to manage proactively rather than reactively;
- **Aligned with the Group's objectives.** Risk management should be aligned with the Group's objectives and provide

reasonable assurance regarding the achievement of those objectives;

- **Integrated into the Group's business.** Risk management should be embedded in all the Group's practices and business processes so that it is relevant, effective, efficient and sustained. In particular, risk management should be embedded in key business processes, including business and strategic planning, budgeting and decision-making. All Group staff should be responsible and accountable for managing the risks in their activities;

- **Integrated into corporate culture.** Risk management should be a part of the Group's corporate culture. All employees should be aware of the relevance of risk to the achievement of their objectives;

- **Clear and plain.** Risk management principles, methods and tools should be clear and plain for the Group's employees;

- **Evolving.** The Group's risk management system should be evolving. This is an ongoing process and it is recognised that the level and extent of the risk management system will evolve as the Group evolves.

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

Internal control

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

Internal Audit

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

- The risk management system functions efficiently;

- Material financial, management and operating information is accurate, reliable and up to date;

- The actions of employees and management bodies are in compliance with the Group's policies, standards and procedures and the applicable laws;

- Resources are procured reasonably, used efficiently and their safe-keeping is fully guaranteed;

- Group companies conduct their business in compliance with applicable laws.

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

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

Governance

Members of the Board of Directors

The new Board composition, detailed below, has been approved by the Annual General Meeting of shareholders on 19 April 2013

Executive Directors

Sergey Maltsev
Chief Executive Officer, Executive Director

Sergey Maltsev has served as CEO and executive member of the Board of Directors 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 has served as the Chairman of the presidium of the non-profit partnership "Council of Railway Operators' Market". He graduated from the Leningrad Frunze Higher School of Railway Forces and Military Communications where he obtained a degree as a railway operations engineer.

Mikhail Loganov
Executive Director, member of the Nomination Committee

Mikhail Loganov was appointed to the Board of Globaltrans in March 2008 as an Executive Director. Mr. Loganov also acts as the Managing Director of the Company.

He has over 10 years of experience in finance and business administration and joined the Group in June 2004 as a finance manager at Globaltrans' subsidiary Sevtekhnotrans. Prior to joining Globaltrans, Mr. Loganov worked as a financial analyst for American Express (Europe) Ltd. At present he also holds the position of Non-Executive member of the Board of Directors of Global Ports Investments PLC and is a member of its Audit and Risk Committee. He graduated with honours from the University of Brighton in the UK with a degree in Business Studies with Finance.

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 10 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 was appointed to the Board on 19 April 2013 as an Executive Director.

Mr. Storozhev has worked in senior management positions of 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 Directors of the New Forwarding Company and Sevtekhnotrans.

The new Board comprises 15 members including four Independent Directors and is chaired by an Independent Director

The enlarged Board and the doubling of the number of Independent Directors reflects the increased business activity of the Group and its future expansion plans on the consolidating Russian freight rail market along with the additional demands that this places on the Directors in terms of expertise and responsibility. The new Board members bring with them competencies and experience in the areas of international commodity markets, oil products rail transportation, rolling stock procurement as well as financial management.

Alexander Tarasov

Executive Director

Alexander Tarasov was appointed to the Board on 19 April 2013 as an Executive Director.

Mr. Alexander Tarasov also acts as a Deputy Director General in Sevtekhnotrans responsible for financial controlling. Prior to that, he has held a number of management positions in other companies in Russia. He has a 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.

Non-Executive Directors

Michael Zampelas

Chairman of the Board, Independent Non-Executive Director, Chairman of the Audit Committee and member of 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.

John Carroll Colley

Independent Non-Executive Director

J. Carroll Colley was appointed to the Board on 19 April 2013 as an Independent Non-Executive Director.

He has extensive experience in international trade and risk management within both the public and private sector. Currently he is Advisor at Eurasia Group, a global political risk consulting company. From 2007 to 2010 Colley, who is fluent in Russian, was Russia country manager at Noble Resources SA, a global leader in supply chain management of strategic raw materials. Prior to that, Mr. Colley held a variety of positions in the public sector, including at the Office of the U.S. Trade Representative and at the U.S. Department of Commerce in Washington, DC. Mr. Colley also worked in Russia from 1992 to 1999, including at Noble Resources. He holds an M.A. in History and a B.A. in International Affairs and Russian Studies from the University of Virginia.

Johann Franz Durrer

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.

Members of the Board of Directors continued

Non-Executive Directors

George Papaioannou
Independent Non-Executive Director

George Papaioannou was appointed to the Board on 19 April 2013 as an Independent Non-Executive Director.

George Papaioannou is a qualified Chartered Accountant. He is a Fellow member of the Institute of Chartered Accountants in England and Wales. He has more than 15 years of experience in financial reporting, risk management, audit, financial performance analysis and taxation. Currently he holds the position of managing director of G. Papaioannou Auditors Limited, an audit firm based in Limassol, Cyprus, founded in 2004 by him. From 2002 to 2004 he worked as audit manager at Grant Thornton. Previous to that he worked at PricewaterhouseCoopers from 1998 to 2002. He holds a degree in Accounting and Financial Management from the University of Essex, UK.

Alexander Eliseev
Non-Executive Director, member of the Remuneration Committee

Alexander Eliseev joined the Board in March 2008 as a Non-Executive Director. He served as Chairman of the Board until March 2013. He is a member of the Remuneration Committee.

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 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 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 on 19 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.

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 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.

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

Melina Pyrgou
Non-Executive Director

Melina Pyrgou was appointed to the Board on 19 April 2013 as a Non-Executive Director. She is a barrister and director at Pyrgou Law Firm, a Cyprus-based corporate law practice servicing international clients. Melina 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 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 in the UK.

Marios Tofaros
Non-Executive Director

Mr. Tofaros was appointed to the Board on 19 April 2013 as a Non-Executive Director.

He is Director of the client accounting department at Amicorp (Cyprus) Ltd. He held the positions 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.

Sergey Tolmachev
Non-Executive Director

Sergey Tolmachev was appointed to the Board on 19 April 2013 as a Non-Executive Director.

Mr. Tolmachev has extensive experience in corporate finance and treasury operation as well as financial analysis and modeling. 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.

Corporate responsibility

Corporate responsibility acknowledges the positive contribution that private enterprise makes to society

As Russia's leading private freight rail group, we recognise we have a duty to manage our business responsibly in the interests of society and the wider community.

We believe that a strong commitment to corporate responsibility encourages and supports greater employee engagement, which in turn leads to improved customer service and a better performing business. Corporate and social responsibility therefore forms a key part of our long-term business strategy.

We are committed to integrating high standards of corporate responsibility throughout our operations while seeking at the same time to foster a culture of continuous improvement in all our CSR activities. Our corporate responsibility engagement focuses on the following areas:

Community

Globaltrans takes its community responsibilities seriously and we maintain strong relationships with our communities – the communities where our employees and their families live and work. The most visible expression of our community agenda is in the charities we support. The principal focus for the Group's charitable giving programmes is on child welfare where at a corporate level we support a number of well targeted initiatives.

At company level, support is very much focused on regional and local community initiatives. For instance in 2012, a number of our operating companies led by "New Forwarding Company" have been supporting a regional charitable foundation "Illustrated books for blind children". We also provide assistance and support to orphanages in a number of regions in Russia.

We place great emphasis on recruitment, development and training

People

Globaltrans is a dynamic, growing organisation employing over 1,100 people. Our success depends on our employees continuing to give our customers great service every day. Essential to this is that they feel engaged and they recognise Globaltrans is a great place to work. So we are committed to investing in our people. Remuneration plays a key role in recruiting and retaining employees. Our rewards and benefits package, which is one of the most competitive in the industry, seeks to motivate our employees and reward performance. We also place great emphasis on recruitment, development and training. Our staff development programmes aim to ensure that all employees are equipped with the skills they need to do their jobs well and to develop their careers within the Group. All group companies actively invest in professional staff development, including lifelong learning provision and financial assistance for employees wishing to access further education including higher education programmes, foreign language courses, and computer training. We also have a flourishing mentoring system, whereby senior and junior staff can share their knowledge and exchange ideas and experiences.

	As at 31 December 2011	As at 31 December 2012	Change	Change, %
Employees by departments (simplified)				
Operations	679	802	124	18%
Administrative	331	383	52	16%
Total	**1,009**	**1,185**	**176**	**17%**

Environment

Rail is responsible for more than 85% of Russia's freight turnover (excluding pipeline traffic) and therefore plays a vital role in our economy. Rail is also by far the most environmentally friendly mode of transport. At Globaltrans, our overriding objective is to minimise the impact of our operations on the environment and operate our services in a sustainable way. We have well established environmental policies and guidelines in place across the Group. We regularly review and update these to reflect changes in legislation and industry best practice. We continually look at ways to improve performance and reduce the environmental impact of our operations.

Health and safety

Nothing matters more than the safety of our people. Running our operating companies in a safe manner is therefore a key strategic priority. We are committed to providing a healthy and safe workplace for all our employees, contractors and customers. We are working hard to instill a safety culture across the organisation, part of which involves empowering our workforce to take personal responsibility for their own safety and that of their colleagues.

We have well established health and safety management systems in place across the Group. We regularly review and update these to reflect changes in legislation and industry best practice. We comply, at a minimum, with all current requirements and legislation and continually look at ways to improve performance. Our goal is to continually improve our health and safety practices year on year.

Directors' report and consolidated financial statements for the year ended 31 December 2012

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Board of directors and other officers

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee
Alternate director: Ms. Ekaterina Golubeva (appointment revoked on 12.12.2012)

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

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

Mr. Sergey Maltsev
Executive Director
Chief Executive Officer
Alternate director: Mr. Konstantin Tserekh

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

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

Mr. Konstantin Shirokov
Executive Director

Board support

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

Company Secretary

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

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited consolidated financial statements for the year ended 31 December 2012. 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 2012 was US$311,578 thousand (2011: US$317,226 thousand). On 31 December 2012 the total assets of the Group were US$2,949,817 thousand (2011: US$1,467,848 thousand) and net assets were US$1,605,860 thousand (2011: US$989,055 thousand).

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

On 15 May 2012, the group has completed the purchase of 100% of the share capital of LLC Ferrotrans ("FT") (formerly LLC Metalloinvesttrans), the freight rail transportation operator, for a total consideration of US$573,471 thousand. 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 fleet engaged from third-party operators.

On 18 December 2012 the Group has signed an agreement to acquire 100 per cent interest in LLC MMK-Trans, the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. Estimated consideration for 100 per cent share amounts to US$250 million assuming net debt and working capital of US$85 million and no capital commitments. MMK-Trans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. The acquisition of LLC MMK-Trans was completed on 12 February 2013.

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 return-oriented expansion pursuing the strategy of opportunistic growth. The Group will also continue its focus on effective fleet management.

Results

The Group's results for the year are set out on pages 9 and 10. The Board of Directors recommends the payment of a dividend as detailed below and the remaining net profit for the year is retained.

Dividends

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

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

In July 2012, the Board of Directors approved a dividend policy. The dividend policy is to recommend to shareholders, for their approval at the Annual General Meetings, a dividend per annum of not less than 30 percent of the consolidated net profit of the Group attributable to the owners of the Company based on the Group's consolidated financial statements for the immediately preceding financial year, prepared in accordance with International Financial Reporting Standards as adopted by the EU.

No interim dividends were declared by the Board of Directors during the year ended 31 December 2012.

Report of the Board of Directors
continued

In May 2012, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986.

The Board of Directors of the Company recommends a payment of dividend in relation to 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.

Share capital

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 3,637,117 ordinary shares held in treasury and the existing shareholders have also sold 7,257,500 shares to the public.

As at 31 December 2012 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2012 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 seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2012 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2012.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors paid by the Company in 2012 amounted to US$391 thousand (2011: US$397 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 2012 and 31 December 2011 are shown below:

Name	Type of holding	2012	2011
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**	11,658,456
Johann Franz Durrer	Holding of GDRs	**160,606**	100,000

Total number of issued shares of the Company as at 31 December 2012 was 178,740,916 (31 December 2011: 158,135,533)

Events after the balance sheet date

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

Board performance

The Board held 21 meetings in 2012. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	15
Michael Zampelas	21
Johann Franz Durrer	21
Sergey Maltsev	13
Mikhail Loganov	18
Elia Nicolaou	21
Konstantin Shirokov	20

The Board Committees

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

Audit Committee

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

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

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.

Report of the Board of Directors
continued

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 4 May 2012.

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 ten branches and twelve representative offices during 2012 (eleven branches and seventeen representative offices during 2011).

Treasury 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 2013, including cash flows and borrowing facilities, the Directors consider that the Group has adequate resources to continue in operation for the foreseeable future.

Auditors

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

By Order of the Board

Alexander Eliseev
Chairman of the Board of Directors
Limassol, 22 March 2013

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 9 to 52) give a true and fair view of the financial position of Globaltrans Investment PLC and its subsidiaries (together with the Company, the "Group") as at 31 December 2012 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

Mikhail Loganov
Director

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Globaltrans Investment PLC (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated balance sheet as at 31 December 2012, 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 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

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

Independent Auditor's Report continued

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 22 March 2013

Consolidated income statement
for the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Revenue	5	**2,114,295**	1,733,056
Cost of sales	6	**(1,450,215)**	(1,210,827)
Gross profit		**664,080**	522,229
Selling and marketing costs	6	**(4,003)**	(3,088)
Administrative expenses	6	**(124,744)**	(90,317)
Other gains – net	7	**1,153**	3,140
Operating profit		**536,486**	431,964
Finance income	9	**–**	7,362
Finance costs	9	**(124,545)**	(39,935)
Finance costs – net	9	**(124,545)**	(32,573)
Share of profit of associates	14	**339**	428
Profit before income tax		**412,280**	399,819
Income tax expense	10	**(100,702)**	(82,593)
Profit for the year		**311,578**	317,226
Attributable to:			
Owners of the Company		**258,016**	266,423
Non-controlling interest		**53,562**	50,803
		311,578	317,226
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	**1.56**	1.68

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	2012 US$'000	2011 US$'000
Profit for the year	**311,578**	317,226
Other comprehensive income/(loss):		
Currency translation differences	**91,154**	(58,599)
Other comprehensive income/(loss) for the year, net of tax	**91,154**	(58,599)
Total comprehensive income for the period	**402,732**	258,627
Total comprehensive income attributable to:		
– owners of the Company	**341,266**	216,917
– non-controlling interest	**61,466**	41,710
	402,732	258,627

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

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2012

	Note	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	**2,281,868**	1,106,171
Intangible assets	13	**197,044**	150
Income tax assets		**1,800**	–
Trade and other receivables	19	**–**	75,777
Investment in associate	14	**2,230**	1,845
Total non-current assets		**2,482,942**	1,183,943
Current assets			
Inventories	20	**13,675**	8,002
Restricted cash	21	**10,000**	–
Trade and other receivables	19	**263,295**	150,955
Current income tax assets		**1,715**	4,191
Cash and cash equivalents	21	**178,190**	120,757
Total current assets		**466,875**	283,905
TOTAL ASSETS		**2,949,817**	1,467,848
EQUITY AND LIABILITIES			
Equity attributable to the owners of the Company			
Share capital	22	**17,875**	15,814
Share premium	22	**949,471**	621,227
Common control transaction reserve		**(368,476)**	(368,476)
Translation reserve		**(56,537)**	(139,787)
Capital contribution		**90,000**	90,000
Retained earnings		**815,259**	639,283
Total equity attributable to the owners of the Company		**1,447,592**	858,061
Non-controlling interests		**158,268**	130,994
Total equity		**1,605,860**	989,055
Non-current liabilities			
Borrowings	24	**837,175**	208,381
Deferred tax liabilities	25	**125,074**	35,247
Total non-current liabilities		**962,249**	243,628
Current liabilities			
Borrowings	24	**237,933**	170,731
Trade and other payables	26	**135,568**	63,959
Current tax liabilities		**8,207**	475
Total current liabilities		**381,708**	235,165
TOTAL LIABILITIES		**1,343,957**	478,793
TOTAL EQUITY AND LIABILITIES		**2,949,817**	1,467,848

On 22 March 2013, the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

By order of the Board

Mikhail Loganov, Director

Konstantin Shirokov, Director

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Note	Attributable to the owners of the Company									
	Note	Share capital US$'000	Share premium US$'000	Common control transaction reserve US$'000	Translation shares US$'000	Translation reserve US$'000	Capital contribution US$'000	Retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2011		**15,814**	**621,227**	**(368,476)**	**–**	**(90,281)**	**90,000**	**485,575**	**753,859**	**130,106**	**883,965**
Comprehensive income											
Profit for the year		–	–	–	–	–	–	266,423	266,423	50,803	317,226
Other comprehensive loss											
Currency translation differences		–	–	–	–	(49,506)	–	–	(49,506)	(9,093)	(58,599)
Total comprehensive income for 2011		–	–	–	–	(49,506)	–	266,423	216,917	41,710	258,627
Transactions with owners											
Dividends to owners of the Company	23	–	–	–	–	–	–	(58,510)	(58,510)	–	(58,510)
Dividends to non-controlling interests	23	–	–	–	–	–	–	–	–	(24,915)	(24,915)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	–	(58,510)	(58,510)	(24,915)	(83,425)
Acquisition of non-controlling interest in subsidiaries	16	–	–	–	–	–	–	(54,205)	(54,205)	(15,907)	(70,112)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**–**	**(112,715)**	**(112,715)**	**(40,822)**	**(153,537)**
Balance at 31 December 2011/1 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 loss											
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 interests	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**

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

Consolidated cash flow statement
for the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Profit before tax		**412,280**	399,819
Adjustments for:			
Depreciation of property, plant and equipment	12	**113,043**	75,052
Amortisation of intangible assets	13	**7,733**	179
Loss on sale of property, plant and equipment	12	**2,120**	1,244
Reversal of impairment charge on property, plant and equipment	12	**–**	(172)
Interest and other finance income	9	**(5,643)**	(7,362)
Interest expense	9	**97,990**	36,726
Share of profit of associates	14	**(339)**	(428)
Foreign exchange losses on finance income/costs		**32,198**	2,046
Recognised deferred gain	7	**–**	(156)
Finance cost on liability for minimum dividend distribution	9	**–**	1,163
		659,382	508,111
Changes in working capital:			
Inventories		**(4,178)**	(1,586)
Trade and other receivables		**(24,703)**	3,748
Trade and other payables		**19,401**	(5,074)
Cash generated from operations		**649,902**	505,199
Tax paid		**(81,821)**	(63,441)
Net cash from operating activities		**568,081**	441,758
Cash flows from investing activities			
Acquisition of subsidiaries-net of cash acquired	15	**(572,888)**	–
Advance payment for acquisition of subsidiary – restricted cash	21	**(10,000)**	–
Purchases of property, plant and equipment		**(736,911)**	(173,941)
Proceeds from disposal of property, plant and equipment	12	**900**	4,526
Interest received		**5,682**	7,317
Receipts from finance lease receivable		**–**	35,925
Net cash used in investing activities		**(1,313,217)**	(126,173)
Cash flows from financing activities			
Proceeds from borrowings		**1,398,298**	112,156
Repayments of borrowings		**(666,787)**	(179,401)
Finance lease principal payments		**(47,450)**	(58,630)
Interest paid		**(90,172)**	(36,519)
Acquisitions of non-controlling interests	15	**–**	(81,700)
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	**(98,879)**	(58,510)
Dividends paid to non-controlling interests	23	**(34,192)**	(26,078)
Net cash from/(used in) financing activities		**807,962**	(328,682)
Net increase/(decrease) in cash and cash equivalents		**62,826**	(13,097)
Exchange losses on cash and cash equivalents		**(4,356)**	(4,141)
Cash, cash equivalents and bank overdrafts at beginning of year	21	**119,720**	136,958
Cash, cash equivalents and bank overdrafts at end of year	21	**178,190**	119,720

Principal non-cash investing and financing transactions

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

(a) Finance leases as a lessor (Note 19)
(b) Finance leases as a lessee (Note 24)

The notes on pages 14 to 52 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 22 March 2013.

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	**2012**	2011
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**	–
Ukrainian New Forwarding Company LLC	Subsidiary	Ukraine	Railway transportation	**100**	100
BaltTransServis, LLC	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 2012 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.

Notes to the consolidated financial statements
continued

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 2012:

- **Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The above standard did not have an impact on these financial statements.

The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective 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:

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

- **IFRS 9, Financial Instruments: Classification and Measurement.*** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group which is subject to endorsement of the standard by the European Union.

- **IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 Group is currently assessing the impact of the new standard on its financial statements.
- **IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its financial statements.
- **IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.
- **IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 Group is currently assessing the impact of the amended standard on its financial statements.

- **Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)**, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- **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 will require 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. Whereas the amendment to IFRS1 and IAS 1 are not expected to have an effect on the Group's consolidated financial statements, the Group is currently assessing the impact of the amendments to IAS16, 32 and 34 on its consolidated financial statements and interim condensed financial statements. The amendments will be applied by the Group upon endorsement of these by the European Union.
- **Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013)***. 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 "Consolidated Financial Statements" 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 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10 "Consolidated Financial Statements" , 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 Group is currently assessing the impact of the amendments on its consolidated financial statements.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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 inprofit or loss.

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.

Notes to the consolidated financial statements
continued

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.

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 Ruble (RUR). However, the consolidated financial statements are presented in United States dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements.

Notes to the consolidated financial statements
continued

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

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

(c) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items at the average monthly rate (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 is 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. 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 of five 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.

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.

Notes to the consolidated financial statements
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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, finance lease receivables, 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. 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.

Cash flow statement

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

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

Trade receivables

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

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

Share capital

Ordinary shares are classified as equity.

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

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders 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.

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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.

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.

Comparative information

Comparative figures have been adjusted to conform with changes in the presentation for the current year. As a result, the cost of services provided by other transportation organisations in the amount of US$27,481 thousand for the year ended 31 December 2011 is now shown as a separate line item within 'cost of sales' whereas previously it was included within 'empty run trips, other tariffs and services provided by other transportation organisations' in 'cost of sales'.

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 Rubles. The Group does not have formal arrangements for hedging this foreign exchange risk. Risks related to liabilities denominated in foreign currency are partly compensated by assets and income denominated in foreign currency. The Group continues its efforts to re-finance some of its US Dollar denominated liabilities by obtaining long term debt denominated in Russian Rubles. However, as the US dollar interest rates continue to be relatively attractive compared to the Russian Ruble interest rate, a portion of the Group's long-term borrowings continue to be in US dollars.

During 2011 the Russian Ruble has weakened against the US Dollar, which resulted in foreign exchange losses for the Group for the year ended 31 December 2011. During the first four months of 2012, Russian Ruble has strengthened against the US Dollar, however starting from May, the value of Russian Ruble against the US Dollar depreciated. In the second half of 2012, Russian Ruble has partially recovered its value. Such fluctuations in combination with increased US Dollar denominated borrowings in the debt portfolio resulted in foreign exchange losses recognized by the Group in the year ended 31 December 2012. As at the end of 2012, the Group was able to decrease the value of US Dollar denominated borrowings in its debt portfolio. The Group is therefore exposed to the effects of currency fluctuations between the US dollar and the Russian Ruble, which could have a material effect on its results of operations and financial condition. The Group is also exposed to the effects of currency fluctuations between the US Dollar and the Euro, which is the functional currency of the Estonian subsidiaries and US Dollar and the Ukrainian Hryvna, which is the 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 2012 and 31 December 2011 are as follows:

	2012 US$'000	2011 US$'000
Assets	**111,559**	73,802
Liabilities	**103,970**	84,644

Had US dollar exchange rate strengthened/weakened by 15% against the Russian Ruble and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2012, would have increased/decreased by US$15,502 thousand (2011: 15% change, effect US$6,358 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of lease liabilities, loans, borrowings, cash and cash equivalents and accounts receivable denominated in US dollars for the Group entities with Russian Ruble being their functional currency. Profit was more sensitive to fluctuations of the exchange rate of Russian Ruble to US dollar for the year ended 31 December 2012 compared to 2011 mainly due to the decrease of the proportion of US Dollar denominated borrowings as at the end of 2012 (Note 24) combined with the increase of the proportion of US Dollar denominated cash and cash equivalents as at the end of 2012.

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Had US dollar exchange rate strengthened/weakened by 15% against the Euro and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2012, would have decreased/increased by US$ 8,676 thousand (2011: 15% change, effect US$4,586 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 more sensitive to fluctuations of the exchange rate of Euro to US dollar for the year ended 31 December 2012 due to increase in US Dollar denominated borrowings of the Estonian subsidiaries of the Group.

Had US dollar exchange rate strengthened/weakened by 15% against the Ukrainian Hryvna and all other variables remained unchanged, the post-tax profit of the Group for the year ended 31 December 2012, would have decreased/increased by US$ 5,223 thousand (2011: 15% change, effect US$2,840 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of borrowings denominated in US Dollars for the Ukrainian subsidiary of the Group. Profit more sensitive to fluctuations of the exchange rate of Ukrainian Hryvna to US dollar for the year ended 31 December 2012 due to increase in US Dollar denominated borrowings of the Ukrainian subsidiary of the Group.

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are exposed to changes in market interest rates arising mainly from floating rate lease liabilities and borrowings. In addition the Group is exposed to fair value interest rate risk through market value fluctuations of finance lease liabilities, bank deposits and finance lease receivables with fixed interest rates. However, any potential change in the market rates of interest will not have an impact on the carrying amount of the fixed rate financial instruments and hence on the Group's post tax profit or equity as these instruments are carried at amortised cost.

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

Had US dollar, Euro and Russian Ruble lease and credit interest rates shift by 1% (in the case of floating interest rates) and all other variables remained unchanged, the post-tax profit of the Group would have changed by US$ 2,547 thousand for the year ended 31 December 2012 (2011: US$412).

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

(c) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade and other receivables and finance lease receivables (Note 19), restricted cash and cash and cash equivalents (Note 21).

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

However, the Group's business is heavily dependent on a few large key customers, accounting for 54.51% of the Group's trade and other receivables (excluding VAT receivable, prepayments and finance lease receivables as at 31 December 2012 (2011: 71.62%).

These figures include trade and other receivables arising from business with related parties which account for 17,97% as at 31 December 2012 (2011: 27.40%).

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 2012 and 31 December 2011:

	Fully performing US$'000	Past due US$'000	Impaired US$'000	Impairment provision US$'000	Total US$'000
As of 31 December 2012					
Trade receivables	42,177	44,337	655	(655)	**86,514**
Other receivables	4,441	732	776	(776)	**4,846**
	46,291	45,069	1,431	(1,431)	**91,360**
As of 31 December 2011					
Trade receivables	35,907	16,307	1,467	(1,467)	**52,214**
Other receivables	823	231	406	(406)	**1,054**
	36,730	16,538	1,873	(1,873)	**53,268**

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

(d) Liquidity risk

The Group has a net working capital surplus of US$85,167 thousand as at 31 December 2012 (2011: US$48,740).

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$187,189 thousand for 2012 (2011: US$112,464 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 2012 and 31 December 2011. 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 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**
31 December 2011								
Borrowings	15,536	30,352	67,243	81,424	94,798	138,477	2,442	**430,272**
Trade and other payables	11,582	412	125	125	–	–	–	**12,244**
	27,118	30,764	67,368	81,549	94,798	138,477	2,442	**442,516**

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 2012 and 31 December 2011 are as follows:

	2012 US$'000	2011 US$'000
Total borrowings	**1,075,108**	379,112
Total capitalisation	**2,522,700**	1,237,173
Total borrowings to total capitalisation ratio (percentage)	**42.62%**	30.64%

External requirements are imposed on the capital of the Company as defined by management in relation to long-term loans provided by financial institutions to certain subsidiaries of the Company. The Group analyses compliance with external requirements to the capital at each reporting date and when entering into new loan agreements and lease contracts. There were no instances of non-compliance with externally imposed capital requirements during 2012 and 2011. Management believes that the Group will be able to comply with its external requirements to the capital during the whole term of agreements.

(f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

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Liabilities carried at amortised cost

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

i) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations (Note 28).

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 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 upon 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 three-year 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 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. 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. The assumptions were based on industry and management forecasts. Cash flows attributed to the customer relationships were discounted using discount rate of 16.91% for the term of the three-year contract and 20.05% for the two years thereafter.

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

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. However, if the goodwill was acquired in a business combination during the current annual period, it is tested for impairment before the end of the current annual period. Management has assessed that in view of the fact that the acquisition of LLC Ferrotrans gives 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 LLC Ferrotrans 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.

(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$681,681 thousand for the year ended 31 December 2012 (US$556,030 thousand for the year ended 31 December 2011).

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$810,041 thousand for the year ended 31 December 2012(US$550,923 thousand for the year ended 31 December 2011).

ii) Determination of the acquisition date in business combinations

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 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 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 LLC MMK-Trans was transferred to the Company and the Group obtained control of the acquiree.

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$60,143 thousand (2011: US$55,602 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$553,778 thousand as at 31 December 2012 (2011: US$501,313 thousand).

iv) Changes in fair value of consideration in business combinations

The final consideration payable by the Group for the acquisition of LLC Ferrotrans (formerly Metalloinvesttrans) which was 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. This resulted in an adjustment increasing preliminary consideration and goodwill arising on such acquisition by US$6,677 thousand. The Group considers this adjustment to the provisional consideration payable for this acquisition as measurement period adjustment as it (i) reflects new information on facts and circumstances that existed as of the acquisition date; and (ii) has an effect on the measurement of identifiable assets and liabilities recognised at that date.

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 repair expenses by type of rolling stock and relating depreciation charges. All other information provided to the Board is measured in a manner consistent with that in the financial statements.

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

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

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

The Group does not have transactions between different business segments.

Notes to the consolidated financial statements
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	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.

	Open wagons US$'000	Tank cars US$'000	All other segments US$'000	Total US$'000
Year ended 31 December 2011				
Total revenue – operator's services	624,608	1,009,572	17,615	1,651,795
Total revenue – operating lease	11,577	62,810	2,168	76,555
Revenue (from external customers)	636,185	1,072,382	19,783	1,728,350
less Infrastructure and locomotive tariffs – loaded trips	(5,188)	(549,036)	(1,806)	(556,030)
less Services provided by other transportation organisations	(27,111)	(370)	–	(27,481)
Adjusted revenue for reportable segments	603,886	522,976	17,977	1,144,839
Depreciation and amortisation	(41,690)	(26,910)	(2,526)	(71,126)
Reversal of impairment charge on property, plant and equipment	–	–	172	172
Additions to non-current assets (included in reportable segment assets)	81,244	36,781	192	118,217
Reportable segment assets	638,429	415,416	29,290	1,083,135

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

	2012 US$'000	2011 US$'000
Adjusted revenue for reportable segments	**1,312,812**	1,144,839
Other revenues	**9,167**	4,706
Total adjusted revenue	**1,321,979**	1,149,545
Cost of sales (excl. Infrastructure and locomotive tariffs – loaded trips, services provided by other transportation organisations, impairments and depreciation of property, plant and equipment)	**(545,871)**	(553,497)
Selling, marketing and administrative expenses (excl. depreciation and impairments)	**(126,784)**	(92,219)
Depreciation	**(113,043)**	(75,052)
Impairment reversal/(charge)	**(948)**	47
Other gains – net	**1,153**	3,140
Operating profit	**536,486**	431,964
Finance income	**–**	7,362
Finance costs	**(124,545)**	(39,935)
Share of profit of associates	**339**	428
Profit before income tax	**412,280**	399,819

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

	2012		2011	
	Assets US$'000	**Liabilities US$'000**	Assets US$'000	Liabilities US$'000
Segment assets/ liabilities	**2,440,989**		1,083,135	
Unallocated:				
Deferred tax	**–**	**125,074**	–	35,247
Income tax assets/liabilities	**3,515**	**8,207**	4,191	475
Investment in associates	**2,230**	**–**	1,845	–
Inventories	**13,675**	**–**	8,002	–
Intangible assets	**11**	**–**	150	–
Current borrowings	**–**	**237,933**	–	170,731
Non-current borrowings	**–**	**837,175**	–	208,381
Property, plant and equipment	**37,912**	**–**	23,036	–
Receivables	**263,295**	**–**	226,732	–
Payables	**–**	**135,568**	–	63,959
Restricted cash	**10,000**	**–**	–	–
Cash and cash equivalents	**178,190**	**–**	120,757	–
Total	**2,949,817**	**1,343,957**	1,467,848	478,793

Geographic information

Revenues from external customers

	2012 US$'000	2011 US$'000
Revenue		
Russia	**2,023,852**	1,663,637
Estonia	**56,127**	29,691
Finland	**22,850**	32,698
Ukraine	**11,466**	7,030
	2,114,295	1,733,056

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

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

	2012		2011	
	US$'000	**% revenue**	US$'000	% revenue
Revenue				
Customer A	**542,191**	**26**	577,805	33

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

	2012 US$'000	2011 US$'000
Non-current assets		
Russia	**2,171,983**	982,229
Estonia	**263,909**	174,681
Ukraine	**47,024**	25,151
Latvia	**–**	1,845
Cyprus	**26**	37
	2,482,942	1,183,943

Notes to the consolidated financial statements
continued

Analysis of revenue by category

	2012 US$'000	2011 US$'000
Railway transportation – operators services (tariff borne by the Group)	**1,208,463**	929,945
Railway transportation – operators services (tariff borne by the client)	**760,865**	721,850
Railway transportation – freight forwarding	**6,895**	3,422
Operating lease of rolling stock	**135,800**	76,555
Other	**2,272**	1,284
Total revenue	**2,114,295**	1,733,056

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 2012 amounting to US$681,681 thousand (for the year ended 31 December 2011: US$556,030 thousand) and the cost of engaging the fleet from third parties recharged to clients of the Group amounting to US$110,635 thousand (2011: US$27,481 thousand).

6. EXPENSES BY NATURE

	2012 US$'000	2011 US$'000
Cost of sales		
Infrastructure and locomotive tariffs:		
Loaded trips	**681,681**	556,030
Empty run trips and other tariffs	**295,889**	271,903
Services provided by other transportation organisations	**110,635**	27,481
Operating lease rentals – rolling stock	**61,618**	132,570
Employee benefit expense	**18,948**	19,561
Repairs and maintenance	**104,051**	76,243
Depreciation of property, plant and equipment	**112,028**	73,991
Amortisation of intangible assets	**7,730**	179
Fuel – locomotives	**31,518**	27,708
Engagement of locomotive crews	**12,169**	12,684
Loss on sale of property, plant and equipment	**2,072**	1,314
Reversal of impairment charge for property, plant and equipment	**–**	(172)
Other expenses	**11,876**	11,335
	1,450,215	1,210,827

	2012 US$'000	2011 US$'000
Selling, marketing and administrative expenses		
Depreciation of property, plant and equipment	**1,015**	1,061
Amortisation of intangible assets	**3**	–
Loss/(gain) on sale of property, plant and equipment	**48**	(70)
Employee benefit expense	**63,137**	42,622
Impairment charge of receivables	**948**	125
Operating lease rental – office	**6,614**	4,820
Auditors' remuneration	**1,937**	1,362
Legal, consulting and other professional fees	**6,955**	9,341
Advertising and promotion	**807**	554
Communication costs	**1,153**	1,122
Information services	**1,664**	1,637
Taxes (other than income tax and value added taxes)	**28,543**	19,533
Other expenses	**15,923**	11,298
	128,747	93,405

	2012 US$'000	2011 US$'000
Total expenses		
Depreciation of property, plant and equipment (Note 12)	**113,043**	75,052
Amortisation of intangible assets (Note 13)	**7,733**	179
Loss on sale of property, plant and equipment (Note 12)	**2,120**	1,244
Employee benefit expense (Note 8)	**82,085**	62,183
Impairment charge for receivables	**948**	125
Reversal of impairment charge for property, plant and equipment	**–**	(172)
Operating lease rentals – rolling stock	**61,618**	132,570
Operating lease rentals – office	**6,614**	4,820
Repairs and maintenance	**104,051**	76,243
Fuel – locomotives	**31,518**	27,708
Engagement of locomotive crews	**12,169**	12,684
Infrastructure and locomotive tariffs:		
Loaded trips	**681,681**	556,030
Empty run trips other tariffs	**295,889**	271,903
Services provided by other transportation organisations	**110,635**	27,481
Auditors' remuneration	**1,937**	1,362
Legal, consulting and other professional fees	**6,955**	9,341
Advertising and promotion	**807**	554
Communication costs	**1,153**	1,122
Information services	**1,664**	1,637
Taxes (other than income tax and value added taxes)	**28,543**	19,533
Other expenses	**27,799**	22,633
Total cost of sales, selling and marketing costs and administrative expenses	**1,578,962**	1,304,232

Note: The auditors' remuneration stated above include fees of US$609 thousand (2011: US$457 thousand) for audit services charged by the Company's statutory audit firm. The rest of the auditor's remuneration relates to fees for audit services charged by the auditors of the subsidiaries of the Company.

7. OTHER GAINS – NET

	2012 US$'000	2011 US$'000
Other gains	**3,574**	6,435
Other losses	**(912)**	(4,223)
Recognised deferred gains	**–**	156
Net foreign exchange gains (Note 11)	**(1,509)**	772
Total other gains – net	**1,153**	3,140

Note: 'Other losses' in 2011 include the amount of US$3,964 thousand recognised in relation to the claim brought by Eesti Raudtee (Estonian Railways) against the subsidiary of the Company the outcome of which was determined in 2011 net of the indemnification received by the parent company. This loss is wholly attributable to non-controlling interest (Note 28).

8. EMPLOYEE BENEFIT EXPENSE

	2012 US$'000	2011 US$'000
Wages and salaries	**37,598**	33,758
Bonuses	**33,555**	22,996
Social insurance costs	**10,932**	5,429
Total employee benefit expense	**82,085**	62,183
Average number of employees	**1,203**	998

Notes to the consolidated financial statements
continued

9. FINANCE INCOME AND COSTS

	2012 US$'000	2011 US$'000
Interest expense:		
Bank borrowings	**(61,758)**	(23,313)
Non-convertible bond	**(32,551)**	(8,424)
Finance leases	**(2,873)**	(4,325)
Other finance costs	**(808)**	(664)
Total interest expense	**(97,990)**	(36,726)
Net foreign exchange transaction losses on borrowings and other liabilities (Note 11)	**(26,555)**	(2,046)
Finance cost on liability for minimum dividend distribution	**–**	(1,163)
Finance costs	**(124,545)**	(39,935)
Interest income:		
Bank balances	**2,309**	634
Short term bank deposits	**3,334**	2,498
Finance leases	**–**	4,230
Total interest income	**5,643**	7,362
Net foreign exchange transaction losses on cash and cash equivalents and other assets (Note 11)	**(5,643)**	–
Finance income	**–**	7,362
Net finance costs	**(124,545)**	(32,573)

Note: interest income from finance leases for the year ended 31 December 2011 includes additional finance income in the amount of US$1,914 thousand recognised as a result of the early termination of finance lease arrangement (Note 19).

10. INCOME TAX EXPENSE

	2012 US$'000	2011 US$'000
Current tax:		
Corporation tax	**85,200**	70,484
Withholding tax on dividends for which no deferred tax was recognised	**–**	4,282
Defence contribution	**–**	1
Total current tax	**85,200**	74,767
Deferred tax (Note 25):		
Origination and reversal of temporary differences	**4,493**	7,916
Impact of change in intention for distribution of profits by subsidiary	**11,059**	–
Impact of change in the Ukrainian tax rate	**(50)**	(90)
Total deferred tax	**15,502**	7,826
Income tax expense	**100,702**	82,593

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

	2012 US$'000	2011 US$'000
Profit before tax	**412,280**	399,819
Tax calculated at domestic tax rates applicable to profits in the respective countries	**82,031**	73,764
Tax effects of:		
Expenses not deductible for tax purposes	**1,414**	1,110
Allowances and income not subject to tax	**(13)**	(790)
Re-measurement of deferred tax liability – change in the Ukrainian tax rate	**(50)**	(90)
Defence contribution	**–**	1
Withholding tax on dividends for which no deferred tax provision was recognised	**–**	4,282
Dividend withholding tax provision (Note 25)(1)	**17,288**	4,316
Other	**32**	–
Tax charge	**100,702**	82,593

(1) Included within 'Dividend withholding tax provision' 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 is 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 current year profits.

The weighted average applicable tax rate was 19.9% in 2012 (2011: 18.4%). The increase in the weighted average applicable tax rate is caused by the increased profitability of the Russian subsidiaries of the Group which are taxed at 20% compared to the Estonian subsidiaries which have zero applicable tax rate.

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

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 2011: 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.

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 will reduce to 19% and is expected to be reduced to 16% from 1 January 2014.

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

11. NET FOREIGN EXCHANGE LOSSES

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

	2012 US$'000	2011 US$'000
Net finance costs (Note 9)	**(32,198)**	(2,046)
Other (losses)/gains – net (Note 7)	**(1,509)**	772
	(33,707)	(1,274)

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 2011					
Cost	1,375,596	2,588	3,705	6,935	1,388,824
Accumulated depreciation	(270,566)	(694)	(2,122)	(3,230)	(276,612)
Net book amount	1,105,030	1,894	1,583	3,705	1,112,212
Year ended 31 December 2011					
Opening net book amount	1,105,030	1,894	1,583	3,705	1,112,212
Additions	131,598	7	827	477	132,909
Disposals	(5,561)	–	(57)	(145)	(5,763)
Depreciation charge	(73,176)	(204)	(658)	(1,014)	(75,052)
Transfers	539	–	–	(539)	–
Reversal of impairment charge on property, plant and equipment	172	–	–	–	172
Currency translation differences	(58,036)	(77)	(89)	(105)	(58,307)
Closing net book amount	1,100,566	1,620	1,606	2,379	1,106,171
At 31 December 2011					
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

Notes to the consolidated financial statements
continued

	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

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

	2012 US$'000	2011 US$'000
Net book amount	**3,009**	5,763
Loss on sale of property, plant and equipment (Note 6)	**(2,120)**	(1,244)
Consideration from sale of property, plant and equipment	**889**	4,519

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

	2012 US$'000	2011 US$'000
Cash consideration received within year	**900**	4,526
Movement in advances received in accounts payable for sales of property, plant and equipment	**(11)**	(7)
	889	4,519

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

	2012 US$'000	2011 US$'000
Cost – capitalised finance leases	**147,331**	182,789
Accumulated depreciation	**(19,948)**	(45,356)
	127,383	137,433

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

	2012 US$'000	2011 US$'000
Rolling stock	**127,272**	137,288
Motor vehicles	**111**	145
	127,383	137,433

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):

	2012 US$'000	2011 US$'000
Rolling stock	**625,375**	303,894

Depreciation expense of US$112,028 thousand in 2012 (2011: US$73,991 thousand) have been charged to "cost of sales" and US$1,015 thousand in 2012 (2011: US$1,061 thousand) have been charged to administrative expenses.

13. INTANGIBLE ASSETS

	Goodwill US$'000	Computer software US$'000	Customer relationships US$'000	Total US$'000
At 1 January 2011				
Cost	–	518	–	518
Accumulated amortisation and impairment	–	(187)	–	(187)
Net book amount	–	331	–	331
Year ended 31 December 2011				
Opening net book amount	–	331	–	331
Amortisation charge (Note 6)	–	(179)	–	(179)
Currency translation differences	–	(2)	–	(2)
Closing net book amount	–	150	–	150
At 31 December 2011				
Cost	–	490	–	490
Accumulated amortisation and impairment	–	(340)	–	(340)
Net book amount	–	150	–	150
Year ended 31 December 2012				
Opening net book amount	–	150	–	150
Acquired through business combinations	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

Amortisation of US$7,730 thousand (2011: US$179 thousand) is included in 'cost of sales' in the income statement; US$3 thousand (2011: nil) in 'administrative expenses'.

In May 2012, the Group completed the acquisition of LLC Ferrotrans (formerly Metalloinvesttrans) (note 15). The goodwill of USD142,328 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 is allocated to Russian open wagons/operator's services group of cash generating units.

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 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. These calculations are based on 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 operates.

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For projections prepared for Russian open wagon/operator's services group of CGUs, terminal growth rate of 3% and the discount rate of 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 pre-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. 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.

14. INVESTMENT IN ASSOCIATE

	2012 US$'000	2011 US$'000
At beginning of year	**1,845**	1,494
Share of profit after tax	**339**	428
Foreign exchange difference (loss)/gain	**46**	(77)
At end of year	**2,230**	1,845

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

Name	Country of incorporation	Assets US$'000	Liabilities US$'000	Revenue US$'000	Profit/(Loss) US$'000	% Interest held
2012						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	7,878	4,545	9,131	339	25.27
2011						
Daugavpils Lokomotivju Remonta Rupnica (DLRR)	Latvia	6,484	3,490	8,472	428	25.27

Fair value of investment in associate based on the closing price quoted on Riga Stock Exchange as at 31 December 2012 is US$1,906 thousand (31 December 2011: US$1,162 thousand).

15. BUSINESS COMBINATION

(a) Acquisition of LLC Ferrotrans

On 15 May 2012, the group has completed the purchase of 100% of the share capital of LLC Ferrotrans ("FT") (formerly LLC 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 USD142,328 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 USD333,417 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 LLC 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 LLC 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.

(b) Acquisition of LLC MMK-Trans

On 18 December 2012 the Group has signed an agreement to acquire 100 per cent interest in LLC MMK-Trans, the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. Estimated consideration for 100 per cent share amounts to US$250 million assuming net debt and working capital of US$85 million and no capital commitments. MMK-Trans 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 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. These funds are treated as restricted cash and are classified as a current asset based on the estimated remaining length of the restriction. The funds are expected to be released to the vendor at completion of the acquisition.

The acquisition was completed on 12 February 2013. The acquisition will be recorded as of that date in accordance with the acquisition method of accounting. Refer to Note 31 for provisional fair values of assets acquired and liabilities assumed and goodwill resulting from acquisition.

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At the time of the acquisition of LLC MMK-Trans, the Group has entered into the call option agreement for the acquisition of 52.5 per cent of OJSC Uralwagonrepair Company (UWC), a company offering railcar repair services. Effective interest of 47.5 per cent of UWC is controlled by MMK-Trans and formed part of the acquisition. The option is exercisable after the completion of the acquisition of MMK-Trans and expires on 18 December 2013. The fair value of the option agreement as at 31 December 2012 is nil.

16. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of non-controlling interests in subsidiaries

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

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

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

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

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

17. FINANCIAL INSTRUMENTS BY CATEGORY

	2012		2011	
	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	91,360	91,360	53,268	53,268
Cash and cash equivalents	178,190	178,190	120,757	120,757
Restricted cash	10,000	10,000	–	–
Total	279,550	279,550	174,025	174,025

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

	2012		2011	
	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	1,075,108	1,075,108	379,112	379,112
Trade and other payables	37,086	37,086	12,244	12,244
Total	1,112,194	1,112,194	391,356	391,356

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:

	2012 US$'000	2011 US$'000
Trade and other receivables		
Counterparties with external credit rating		
Moody's (Ba3)	**2,905**	–
Standard & Poor's (BBB-)	**10,438**	7,806
	13,343	7,806

	2012 US$'000	2011 US$'000
Counterparties without external credit rating		
Group 1	**31,985**	28,092
Group 2	**963**	832
	32,948	28,924
Total trade and other receivables	**46,291**	36,730

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	2012 US$'000	2011 US$'000
Moody's [3]	Aaa - A1	**49,398**	45,232
Moody's [3]	Baa1 - B3	**105,846**	59,516
Moody's [3]	B3	**1,389**	–
Standard & Poor's [4]	BBB+ - BBB-	**27,269**	15,996
Fitch [5]	BBB+	**4,273**	–
Other non-rated banks		**6**	10
Total cash at bank and bank deposits [1][2]		**188,181**	120,754

[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

	2012 US$'000	2011 US$'000
Trade receivables – third parties	**70,430**	38,552
Trade receivables – related parties (Note 30)	**16,739**	15,129
Less: Provision for impairment of trade receivables	**(655)**	(1,467)
Trade receivables – net	**86,514**	52,214
Other receivables	**5,618**	1,427
Other receivables – related parties (Note 30)	**4**	33
Less: Provision for impairment of other receivables	**(776)**	(406)
Other receivables – net	**4,846**	1,054
Prepayments – related parties (Note 30)	**2,773**	2,848
Prepayments – third parties	**84,533**	116,558
VAT recoverable	**84,629**	54,058
	263,295	226,732

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	2012 US$'000	2011 US$'000
Less non-current portion:		
Prepayments for property, plant and equipment	–	75,777
Total non-current portion	–	75,777
Current portion	263,295	150,955

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

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

Non-current receivables as at 31 December 2011 represent prepayment for the acquisition of rolling stock which was delivered in 2012.

Receivables amounting to US$46,291 thousand as of 31 December 2012 were fully performing (2011: US$36,730 thousand).

Receivables of US$45,069 thousand as of 31 December 2012 were past due but not impaired (2011: US$16,538 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:

	2012 US$'000	2011 US$'000
Less than 1 month	29,144	14,427
From 1 to 3 months	9,005	1,156
From 3 to 6 month	5,141	680
From 6 months to 1 year	1,687	156
Over one year	92	119
	45,069	16,538

Trade receivables amounting to US$655 thousand as of 31 December 2012, were impaired and provided for in full (2011: US$1,467 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$776 thousand as of 31 December 2012, were impaired and provided for in full (2011: US$406 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:

	2012 US$'000	2011 US$'000
Currency:		
US dollar	21,047	26,679
Russian Rubles	235,382	194,611
Euro	345	667
Ukrainian Hryvna	6,521	4,775
	263,295	226,732

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

	2012			2011		
	Trade receivables US$'000	Other receivables US$'000	Total US$'000	Trade receivables US$'000	Other receivables US$'000	Total US$'000
At 1 January	1,467	406	1,873	1,645	676	2,321
Provision for receivables impairment (Note 6)	861	469	1,330	199	160	359
Bad debt written off	(1,393)	(120)	(1,513)	(174)	(312)	(486)
Unused amounts reversed (Note 6)	(374)	(8)	(382)	(130)	(104)	(234)
Currency translation differences	94	29	123	(73)	(14)	(87)
At 31 December	655	776	1,431	1,467	406	1,873

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, other than those relating to finance leases. Lease receivables are effectively secured as the rights to the lease assets revert to the Group as the lessor in the event of a default.

20. INVENTORIES

	2012 US$'000	2011 US$'000
Raw materials, spare parts and consumables	**13,675**	8,002
	13,675	8,002

All inventories are stated at cost.

21. CASH AND CASH EQUIVALENTS

	2012 US$'000	2011 US$'000
Cash at bank and in hand	**73,944**	84,252
Short term bank deposits	**104,246**	36,505
Total cash and cash equivalents	**178,190**	120,757
Restricted cash	**10,000**	–
	188,190	120,757

The effective interest rate on short-term deposits was 3.41% in 2012 (2011: 5.37%) and these deposits have a maturity of 3 to 18 days (2011: 10 to 32 days).

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

	2012 US$'000	2011 US$'000
Cash and cash equivalents	**178,190**	120,757
Bank overdrafts (Note 24)	**–**	(1,037)
Total cash and cash equivalents	**178,190**	119,720

The effective interest rate on bank overdrafts in 2011 was 2.19%.

Cash and cash equivalents are denominated in the following currencies:

	2012 US$'000	2011 US$'000
Russian Ruble	**91,154**	60,789
US Dollar	**86,514**	59,742
Euro	**171**	33
Ukrainian Hryvna	**351**	193
Total cash and cash equivalents	**178,190**	120,757

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 LLC MMK-Trans (Note 15). These funds were treated as restricted cash as of 31 December 2012.

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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 2011/31 December 2011/1 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	178,740,916	17,875	949,471	967,346

The total authorised number of ordinary shares at 31 December 2012 was 233,918,128 shares with a par value of US$0.10 per share (31 December 2011: 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 2012 and 2011 were US$98,878,986 (US$0.64 per share) and US$58,510,147 (US$0.37 per share) respectively.

At the Annual General Meeting which will take place in May 2013, a final dividend in respect of the profit for the year ended 31 December 2012 of 70 US cents per ordinary share, amounting to a total dividend of US$125,118,641 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 2013.

During the year ended 31 December 2012, the Group declared and paid US$34,192 thousand (2011: US$26,078 thousand) of dividends in favour of non-controlling interests. During the year ended 31 December 2011, pursuant to the obligation for minimum dividend distribution by Ultracare Holdings Limited and LLC BaltTransServis US$1,163 thousand was recognised as finance cost and the remaining US$24,915 thousand was recognised as dividends. During the year ended 31 December 2012, all distributions to non-controlling interests were recognised as dividends as the obligation for minimum dividend distribution was cancelled in 2011.

24. BORROWINGS

	2012 US$'000	2011 US$'000
Current		
Bank overdrafts (Note 21)	**–**	1,037
Bank borrowings	**181,053**	123,050
Non-convertible unsecured bonds	**31,500**	20,032
Finance lease liabilities	**25,380**	26,612
Total current borrowings	**237,933**	170,731
Non-current		
Bank borrowings	**414,194**	131,180
Non-convertible unsecured bonds	**367,247**	55,661
Finance lease liabilities	**55,734**	21,540
Total non-current borrowings	**837,175**	208,381
Total borrowings	**1,075,108**	379,112
Maturity of non-current borrowings (excluding finance lease liabilities)		
Between 1 and 2 years	**203,436**	69,432
Between 2 and 5 years	**578,005**	115,111
Over 5 years	**–**	2,298
	781,441	186,841

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.

	2012 US$'000	2011 US$'000
Finance lease liabilities – minimum lease payments		
Not later than 1 year	**27,374**	27,912
Later than 1 year and not later than 5 years	**58,188**	22,241
Future finance charges of finance leases	**(4,448)**	(2,001)
Present value of finance lease liabilities	**81,114**	48,152
The present value of finance lease liabilities is as follows:		
Not later than 1 year	**25,380**	26,612
Later than 1 year and not later than 5 years	**55,734**	21,540
	81,114	48,152

Bank borrowings

Bank borrowings mature by 2017 and bear average interest of 9.5% per annum (2011: 8.8% per annum).

There were no defaults or breaches of loan terms during the years ended 31 December 2012 and 31 December 2011.

The current and non-current bank borrowings amounting to US$180,739 thousand and US$414,194 thousand respectively (2011: US$92,646 thousand and US$130,868 thousand respectively) are secured by pledge of rolling stock. The remaining bank borrowings amounting to US$314 thousand (2011: US$30,716 thousand) are unsecured.

The bank and financial institutions loans of a total amount of US$594,933 thousand (2011: US$223,514 thousand) are secured by property, plant and equipment at the carrying net book value of US$625,375 thousand (2011: US$303,894 thousand) (Note 12).

Non-convertible bonds

Non-convertible Russian ruble denominated bonds issued by OJSC New Forwarding Company ("NFC") in 2010 for a total amount of RUB3 billion (US$98 million) 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 (US$341,423 thousand) 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.

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:

	2012 US$'000	2011 US$'000
6 months or less	**357,484**	179,950
6 to 12 months	**63,978**	35,747
1 to 5 years	**653,646**	161,117
over 5 years	**–**	2,298
	1,075,108	379,112

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

	Carrying amount		Fair value	
	2012 US$'000	2011 US$'000	2012 US$'000	2011 US$'000
Bank borrowings	**414,194**	131,180	**412,998**	131,180
Non-convertible unsecured bonds	**367,247**	55,661	**369,674**	55,343
Finance lease liabilities	**55,734**	21,540	**55,734**	21,540
	837,175	208,381	**838,406**	208,063

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

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

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

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

	2012 US$'000	2011 US$'000
US Dollar	**98,010**	79,890
Russian Ruble	**975,108**	299,120
Euro	**1,990**	102
	1,075,108	379,112

The Group has the following undrawn borrowing facilities:

	2012 US$'000	2011 US$'000
Floating rate:		
Expiring within one year	**149,985**	26,012
Fixed rate:		
Expiring within one year	**37,204**	86,452
	187,189	112,464

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

	2012 %	2011 %
Bank overdrafts	**–**	2.2
Bank borrowings	**9.5**	8.8
Non-convertible unsecured bonds	**9.9**	9.3
Finance lease liabilities	**2.9**	5.0

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:

	2012 US$'000	2011 US$'000
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**126,789**	36,516
– Deferred tax liability to be recovered within 12 months	**(1,715)**	(1,269)
Deferred tax liabilities	**125,074**	35,247

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

	2012 US$'000	2011 US$'000
Beginning of year	**35,247**	32,430
Income statement charge (Note 10)	**15,502**	7,826
Acquisition of subsidiaries (Note 15)	**80,878**	–
Withholding tax on actual dividend distribution	**(8,873)**	(2,859)
Currency translation differences	**2,320**	(2,150)
End of year	**125,074**	35,247

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

Deferred tax liabilities	Property, plant and equipment US$'000	Lease liability US$'000	Trade and other payables US$'000	Withholding tax provision US$'000	Intangible assets US$'000	Other assets/ liabilities US$'000	Total US$'000
At 1 January 2011	27,596	(8,775)	(1,574)	9,670	–	5,513	32,430
Charged/(credited) to:							
Income statement (Note 10)	2,339	7,423	1,032	4,316	–	(7,284)	7,826
Withholding tax on actual dividend distribution	–	–	–	(2,859)	–	–	(2,859)
Currency translation differences	(1,691)	(180)	(5)	(618)	–	344	(2,150)
At 31 December 2011/1 January 2012	28,244	(1,532)	(547)	10,509	–	(1,427)	35,247
Charged/(credited) to:							
Income statement (Note 10)	(1,544)	1,267	1,139	6,229	(1,516)	(1,132)	4,443
Acquisition of subsidiaries and joint ventures	65,546	–	(2,352)	4,975	12,671	38	80,878
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	(60)	32	1,191	(111)	(131)	2,320
At 31 December 2012	93,645	(325)	(1,728)	25,090	11,044	(2,652)	125,074

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$60,143 thousand (2011:US$55,602 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$553,778 thousand as at 31 December 2012 (2011: US$501,313 thousand).

26. TRADE AND OTHER PAYABLES

	2012 US$'000	2011 US$'000
Current		
Trade payables to third parties	**28,733**	10,620
Trade payables to related parties (Note 30)	**502**	454
Other payables to third parties	**32,960**	17,756
Accrued expenses	**4,816**	6,954
Advances from customers for transportation services	**67,347**	26,796
Advances from related parties for transportation services (Note 30)	**1,210**	1,379
	135,568	63,959

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.

	2012	2011
Profit attributable to equity holders of the company (US$ thousand)	**258,016**	266,423
Weighted average number of ordinary shares in issue (thousand)	**165,580**	158,136
Basic and diluted earnings per share (expressed in US$ per share)	**1.56**	1.68

Notes to the consolidated financial statements
continued

28. CONTINGENCIES

Operating environment

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

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

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.

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 LLC 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 LLC 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 and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be 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.

Amendments to Russian transfer pricing legislation are effective from 1 January 2012. The new transfer pricing rules 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. The 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 has implemented internal controls to be in compliance with the new transfer pricing legislation and expects that the Group will comply with the requirements of the new legislation by the deadline set.

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. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the 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 2012 and 31 December 2011(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 2012, the Group was involved as a claimant and defendant in a number of court proceedings.

During the year ended 31 December 2010, AS Spacecom, a subsidiary of the Company was involved in court proceedings with AS Eesti Raudtee (Estonian Railways). In January 2011, Tallinn Circuit Court (court of second instance) published a ruling which satisfied the claim of Estonian Railways against AS Spacecom in the amount of EUR15,078 thousand (USD19,509 thousand at 31 December 2011 exchange rates) for the unpaid invoices and late payment charges, plus costs and legal fees. In May 2011, the Court of third instance has declined an application for an appeal submitted by AS Spacecom and consequently the decision of the Tallinn Circuit Court came into force. The Group was indemnified for up to 61% of any losses arising from this case over and above the amounts already provided in the consolidated financial statements of the Group pursuant to the indemnification clauses included in the share purchase agreements in relation to this litigation. The net amount of the claim which was not previously provided for in the consolidated financial statements of the Group less amounts compensated in accordance with such indemnification clauses was recognised in these consolidated financial statements in a total amount of EUR2,848 thousand (USD3,964 thousand at 31 December 2011 exchange rates). Such amount was attributed solely to non-controlling interests and therefore had no impact on profit attributable to equity owners of the Group or on Earnings per share. The claim was settled in full by the Group and respective indemnity was received during the year ended 31 December 2011.

In July 2011 the Group received a notice ofa 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.

No provision was recognised in these consolidated financial statements in respect of the above claims.

In the opinion of management, there are no other legal proceedings or other claims outstanding, as of 31 December 2012 and 2011 which could have a material effect on the results of operations or financial position of the Group and which have not been accrued or disclosed in these financial statements.

29. COMMITMENTS

(a) Capital commitments

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

	2012 US$'000	2011 US$'000
Property, plant and equipment	**676**	205,595

On 18 December 2012, the Company entered into the agreement for the acquisition of 100 per cent of LLC MMK-Trans (Note 15). The estimated consideration of US$250 million (including US$10 million held as 'restricted cash' on escrow account as at 31 December 2012) will be payable on completion date which has occurred on 12 February 2013 (Note 31).

Notes to the consolidated financial statements
continued

(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:

	2012 US$'000	2011 US$'000
Not later than 1 year	**35,793**	49,523
Later than 1 year not later than 5 years	**6,228**	12,062
	42,021	61,585

(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:

	2012 US$'000	2011 US$'000
Not later than 1 year	**39,420**	60,766
Later than 1 year not later than 5 years	**12,939**	5,397
	52,359	66,163

Contingent-based rents recognised in the income statement were US$nil for the year ended 31 December 2012 (2011: US$nil).

30. RELATED PARTY TRANSACTIONS

Until 17 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 17 July 2012. Further, the Directors of the Company controlled 0.1% of the Company's shares through their holdings of GDRs with the remaining 35.3% of the shares representing the free market-float. Until 17 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 on 17 July 2012, the Group no longer has an ultimate controlling party. Following the above event, as well as the additional sale of shares of the Company by TIHL in October 2012 shares held by its major shareholders, TIHL and EIL together with their affiliated entities as at 31 December 2012 are 34.5% and 10.8% respectively. 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 17 July 2012 and an entity exercising significant influence over the Group thereafter.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2012 US$'000	2011 US$'000
Sales of services:		
Other related parties:		
Entities under control of TIHL	**37,241**	29,215
Entities under significant influence of TIHL	**28**	13,281
Entities under significant influence of members of key management	**126,389**	113,896
	163,658	156,392

(b) Purchases of goods and services

	2012 US$'000	2011 US$'000
Purchases of services:		
Associate	–	398
Other related parties		
Entities under control of TIHL	**9,873**	4,475
Entities under control by parties with significant influence over the Group	**1,030**	1,089
Entities under significant influence of TIHL	–	457
Entities under significant influence of members of key management	**18,869**	21,432
	29,772	27,851

(c) Additions and disposals of property, plant and equipment

	2012 US$'000	2011 US$'000
Additions:		
Other related parties		
Entities under control of TIHL	**1,178**	1,737
Entities under significant influence of members of key management	**362**	216
	1,540	1,953

(d) Key management compensation

	2012 US$'000	2011 US$'000
Key management salaries and other short term employee benefits	26,002	21,065
	26,002	21,065

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$7,935 thousand (2011: US$2,388 thousand).

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

	2012 US$'000	2011 US$'000
Trade receivable from related parties (Note 19):		
Other related parties		
Entities under control of TIHL	**5,768**	7,738
Entities under significant influence of members of key management	**10,728**	6,991
	16,496	14,729
Other receivables from related parties (Note 19):		
Other related parties		
Entities under control of TIHL	**3**	32
Entities under significant influence of members of key management	**1**	1
	4	33
Prepayments to related parties (Note 19):		
Other related parties		
Entities under control of TIHL	**1,580**	375
Entities under significant influence of members of key management	**1,193**	2,473
	2,773	2,848

Notes to the consolidated financial statements
continued

	2012 US$'000	2011 US$'000
Trade payables to related parties (Note 26):		
Other related parties		
Entities under control of TIHL	**286**	212
Entities under significant influence of members of key management	**216**	242
	502	454
Advances from related parties (Note 26):		
Other related parties		
Entities under control of TIHL	**76**	98
Entities under significant influence of members of key management	**1,134**	1,281
	1,210	1,379

(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:

	2012 US$'000	2011 US$'000
Not later than 1 year	**5,570**	16,206
Later than 1 year and not later than 5 years	**3,796**	4,907
	9,366	21,113

Operating lease commitments with 'other related parties' amounting to US$8,630 thousand were to entities under significant influence of members of key management (2011: US$20,311), 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 joint-control by TIHL) are as follows:

	2012 US$'000	2011 US$'000
Not later than one year	**26**	15

31. EVENTS AFTER THE BALANCE SHEET DATE

Business combinations

On 12 February 2013, the Group has completed the purchase of 100 per cent of the share capital of LLC MMK-Trans for a cash consideration of US$250 million assuming net debt and working capital of US$85 million and no capital commitments. Final purchase price will be determined based on actual values of net debt and working capital and it is expected that such final purchase price will be determined by the end of April 2013. The core business of MMK-Trans is to manage rail logistics of MMK, one of the largest single-site steelmakers in Russia, using its owned and leased-in railcar fleet as well as the fleet engaged from third-party operators.

As part of the transaction, the Group entered into a five-year contract to supply MMK Group with rail transportation services for at least 70% of MMK's rail cargo flows.

Details of provisional fair value of the net identifiable assets acquired and goodwill are as follows:

	12-Feb-2013 US$'000
Estimated cash consideration	250,221
Total estimated consideration	**250,221**
Provisional fair value of recognised amounts of identifiable assets and liabilities assumed:	
Cash and cash equivalents	34,600
Property, plant and equipment	155,159
Intangible assets	139,419
Inventories	164
Trade and other receivables	62,102
Trade and other payables	(42,109)
Deferred tax liabilities	(42,589)
Borrowings	(120,747)
Income tax liability	(1,265)
Total identifiable net assets	184,734
Goodwill	65,487
	250,221

Assets and liabilities other than property, plant and equipment and intangible assets are based on the MMK-Trans IFRS balance sheet as of 31 January 2013 and not as of 12 February 2013 as the IFRS figures as of 12 February 2013 are not available as of the date of the authorisation of these consolidated financial statements.

The goodwill of USD65,487 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 as well as access to MMK cargo base enabling the Group to develop a more efficient gondola car logistics configurations with low empty runs.

For the purposes of financing the acquisition of MMK-Trans the Group attracted the term credit facility denominated in Russian rubles in the amount of US$190 million at the fixed interest rate with maturity of three years. The credit facility is secured by the pledge of rolling stock by a subsidiary of the Company as well as by the pledge of 100% share in MMK-Trans.

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

Independent Auditor's Report on pages 7 to 8.

Appendix 2

Directors' report and parent company financial statements for the year ended 31 December 2012

Contents

Directors' report and parent company financial statements for the year ended 31 December 2012

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Board of Directors and other officers

Board of Directors

Mr. Alexander Eliseev
Chairman of the Board of Directors
Non-executive Director
Member of the Remuneration Committee
Alternate Director: Ms. Ekaterina Golubeva (appointment revoked on 12 December 2012)

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

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

Mr. Sergey Maltsev
Executive Director, Chief Executive Officer
Alternate Director: Mr. Konstantin Tserekh

Mr. Mikhail Loganov
Executive Director
Member of the Nomination Committee

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

Mr. Konstantin Shirokov
Executive Director

Board support

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

Company Secretary

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

Assistant secretary: Mr. Marios Tofaros

Registered office

20 Omirou Street
Agios Nicolaos
CY-3095 Limassol,
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited parent company financial statements for the year ended 31 December 2012. The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the requirements of Cyprus Companies Law, Cap. 113.

Principal activities

The principal activity of the Company, which is unchanged from last year, is the holding of investments and provision of financing to other Group companies.

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

The net profit of the Company for the year ended 31 December 2012 was US$135,780 thousand (2011: net profit of US$110,724 thousand). On 31 December 2012 the total assets of the Company were US$1,391,435 thousand (2011: US$743,008 thousand) and net assets were US$1,195,027 thousand (2011: US$739,426 thousand). The financial position, development and performance of the Company as presented in the financial statements is considered satisfactory.

On 25 July 2012, the Company has signed an agreement to acquire 100% of the share capital of LLC Ferrotrans ("FT") (formerly LLC Metalloinvesttrans), the freight rail transportation operator, from OJSC New Forwarding Company, its 100% subsidiary.

On 18 December 2012 the Company has signed an agreement to acquire 100 per cent interest in LLC MMK-Trans, the captive freight rail operator of MMK Group, one of the largest single-site steelmakers in Russia. Estimated consideration for 100 per cent share amounts to US$250 million assuming net debt and working capital of US$85 million and no capital commitments. MMK-Trans principally handles cargoes of the MMK Group, primarily metallurgical cargoes and coal. The acquisition of LLC MMK-Trans was completed on 12 February 2013.

Principal risks and uncertainties

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

The Company's contingencies are disclosed in Note 22 to the financial statements.

The Board has adopted a formal process to identify, evaluate and manage 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 9 and 10. The Board of Directors recommended the payment of a dividend in relation to the year 2012 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 2012 the Board of Directors has not declared any interim dividends in relation to 2012.

In May 2012, the shareholders of the Company approved the payment of the final dividend in respect of the financial year ended 31 December 2011 in the amount of 64 US cents per ordinary share, amounting to a total dividend of US$98,878,986.

The Board of Directors of the Company recommends a payment of dividend in relation to 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.

Report of the Board of Directors
continued

Share capital

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 3,637,117 ordinary shares held in treasury and the existing shareholders have also sold 7,257,500 shares to the public.

As at 31 December 2012 the authorized share capital of the Company comprised 233,918,128 shares with a par value of US$0.10 per share.

As at 31 December 2012 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 seven members, four of whom are non-executive directors (including the Chairman). Two of the non-executive directors are independent, they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from management.

The members of the Board of Directors at 31 December 2012 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year ended 31 December 2012.

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

There were no significant changes in the assignment of responsibilities of the Board of Directors. The total remuneration of the members of the Board of Directors paid by the Company in 2012 amounted to US$391 thousand (2011: US$397 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 2012 and 31 December 2011 are shown below:

Name	Type of holding	2012	2011
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**	11,658,456
Johann Franz Durrer	Holding of GDRs	**160,606**	100,000

Total number of issued shares of the Company as at 31 December 2012 was 178,740,916 (31 December 2011: 158,135,533)

Events after the balance sheet date

The events after the balance sheet date are disclosed in Note 23 to the parent company financial statements.

Board performance

The Board held 21 meetings in 2012. The Directors' attendance is presented in the table below.

	Attended
Alexander Eliseev	15
Michael Zampelas	21
Johann Franz Durrer	21
Sergey Maltsev	13
Mikhail Loganov	18
Elia Nicolaou	21
Konstantin Shirokov	20

The Board Committees

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

Audit Committee

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

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

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

Nomination Committee

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

Remuneration Committee

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

Corporate governance

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 4 May 2012.

Refer to Note 21 of the parent company financial statements for details of remuneration paid to the members of the Board and other members of key management personnel.

Report of the Board of Directors
continued

Branches
The Company did not operate through any branches during the year.

Treasury 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 parent company financial statements based on the fact that, after making enquiries and following a review of the Company's budget for 2013, including cash flowsarising 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

Alexander Eliseev
Chairman of the Board of Directors
Limassol, 22 March 2013

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 9 to 33) give a true and fair view of the financial position of the parent company Globaltrans Investment PLC as at 31 December 2012 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

Mikhail Loganov
Director

Independent auditor's report
to the Members of Globaltrans Investment PLC

Report on the financial statements

We have audited the accompanying financial statements of parent company Globaltrans Investment PLC (the "Company") which comprise the balance sheet as at 31 December 2012, 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 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

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

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

We have reported separately on the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012.

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Limassol, 22 March 2013

Income statement
for the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Revenue	5	**145,011**	123,231
Selling and marketing costs		**(103)**	(96)
Administrative expenses		**(4,629)**	(2,907)
Other gains/(losses) – net	6	**1,022**	(3,037)
Operating profit		**141,301**	117,191
Finance income	9	**3,761**	(2,016)
Finance costs	9	**(4,583)**	–
Finance costs – net	9	**(822)**	(2,016)
Profit before tax		**140,479**	115,175
Tax	10	**(4,699)**	(4,451)
Profit for the year		**135,780**	110,724

The notes on pages 14 to 33 are an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2012

	2012 US$'000	2011 US$'000
Profit for the year	**135,780**	110,724
Other comprehensive income:		
Currency translation differences	**71,556**	(39,719)
Other comprehensive income/(loss) for the year, net of tax	**71,556**	(39,719)
Total comprehensive income for the year	**207,336**	71,005

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

The notes on pages 14 to 33 are an integral part of these financial statements

Balance sheet
at 31 December 2012

	Note	2012 US$'000	2011 US$'000
ASSETS			
Non-current assets			
Investments in subsidiary undertakings	14	**1,244,051**	585,749
Property, plant and equipment	13	**26**	37
Loans and other receivables	17	**40,151**	110,294
Total non-current assets		**1,284,228**	696,080
Current assets			
Loans and other receivables	17	**5,707**	2,140
Income tax assets		**28**	–
Restricted cash	18	**10,000**	–
Cash and cash equivalents	18	**91,472**	44,788
Total current assets		**107,207**	46,928
TOTAL ASSETS		**1,391,435**	743,008
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	**17,875**	15,814
Share premium	19	**949,471**	621,227
Capital contribution		**90,000**	90,000
Translation reserve		**(28,029)**	(99,585)
Retained earnings		**165,710**	111,970
Total equity		**1,195,027**	739,426
Current liabilities			
Current income tax liabilities		**–**	201
Payables and accrued expenses	20	**196,408**	3,381
Total current liabilities		**196,408**	3,582
TOTAL LIABILITIES		**196,408**	3,582
TOTAL EQUITY AND LIABILITIES		**1,391,435**	743,008

On 22 March 2013 the Board of Directors of Globaltrans Investment PLC authorised these financial statements for issue.

Mikhail Loganov, Director

Konstantin Shirokov, Director

The notes on pages 14 to 33 are an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2012

	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 2011		15,814	621,227	–	(59,866)	90,000	59,756	726,931
Comprehensive income Profit for the year		–	–	–	–	–	110,724	110,724
Other comprehensive loss Currency translation differences		–	–	–	(39,719)	–	–	(39,719)
Total comprehensive income for 2011		–	–	–	(39,719)	–	110,724	71,005
Transactions with owners Dividend relating to 2010	12	–	–	–	–	–	(58,510)	(58,510)
Total contributions by and distributions to owners of the Company		–	–	–	–	–	(58,510)	(58,510)
Total transactions with owners		–	–	–	–	–	(58,510)	(58,510)
Balance at 31 December 2011/1 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		17,875	949,471	–	(28,029)	90,000	165,710	1,195,027

The notes on pages 14 to 33 are an integral part of these financial statements.

Cash flow statement
for the year ended 31 December 2012

	Note	2012 US$'000	2011 US$'000
Cash flows from operating activities			
Profit before tax		**140,479**	115,175
Adjustments for:			
Depreciation of property, plant and equipment	13	**11**	12
Profit on sale of property, plant and equipment	7	**–**	(5)
Interest income	9	**(3)**	(24)
Interest expense	9	**8,242**	–
Gain on re-measurement of financial liability	9	**(3,755)**	–
Exchange losses on finance income/costs	11	**(3,662)**	2,040
Amortisation of financial guarantees	6	**(951)**	(1,114)
Operating cash flows before working capital changes		**140,361**	116,084
Changes in working capital:			
Other receivables		**(620)**	39,326
Payables and accrued expenses		**285**	(41)
Net cash generated from operations		**140,026**	155,369
Tax paid		**(4,886)**	(6,201)
Net cash generated from operating activities		**135,140**	149,168
Cash flows from investing activities			
Acquisition of subsidiaries	14	**(400,000)**	(81,700)
Advance payment for acquisition of subsidiary – restricted cash	14	**(10,000)**	–
Purchases of property, plant and equipment	13	**–**	(13)
Proceeds from sale of property plant and equipment	13	**–**	5
Loans granted to related parties	21	**(85,562)**	(23,330)
Loan repayments received from related parties	21	**157,136**	18,013
Interest received on bank balances and bank deposits		**3**	24
Receipt of indemnity for losses suffered by subsidiary	21	**–**	6,345
Net cash used in investing activities		**(338,423)**	(80,656)
Cash flows from financing activities			
Proceeds from borrowings – related parties	21	**90**	–
Repayment of borrowings – related parties	21	**(90)**	–
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	**(98,879)**	(58,510)
Net cash from/(used in) financing activities		**248,265**	(58,510)
Net increase in cash and cash equivalents		**44,981**	10,002
Exchange gains/(losses) on cash and cash equivalents		**1,702**	(718)
Cash and cash equivalents at beginning of year	18	**44,788**	35,504
Cash and cash equivalents at end of year	18	**91,472**	44,788

The notes on pages 14 to 33 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 22 March 2013.

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 2012 have been adopted by the EU through the endorsement procedure established by the European Commission with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

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

The Company has prepared these parent's separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and disclosure rules as issued by the Financial Services Authority of United Kingdom.

Users of these parent's separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2012 in order to obtain a proper understanding of the financial position, the financial performance and cash flows of the Company and the Group.

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

New standards, interpretations and amendments to published standards

a) *The Company has adopted the following new standards, amendments and interpretations as of 1 January 2012:*

- **Disclosures—Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been de recognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The above standard did not have an impact on these financial statements.

The following new International Financial Reporting Standards (IFRS) and IFRIC Interpretations have been issued but are not yet effective or if

Notes to the financial statements
continued

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:

b) *Standards, amendments and interpretations that are relevant and not yet effective and have not been early adopted by the Company or if effective, have not yet been endorsed by the EU*

- **IFRS 9, Financial Instruments: Classification and Measurement**.* IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument–by–instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
  - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company which is subject to endorsement of the standard by the European Union.

- **IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 Company is currently assessing the impact of the new standard on its financial statements.
- **IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non–controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Company is currently assessing the impact of the new standard on its financial statements.
- **IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Company is currently assessing the impact of the standard on its financial statements.
- **IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013; EU effective date for 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 Company is currently assessing the impact of the amended standard on its financial statements.
- **Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012)**, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Company expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.
- **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 will require 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. Whereas the amendment to IFRS1 and IAS 1 are not expected to have an effect on the Group's consolidated financial statements, the Group is currently assessing the impact of the amendments to IAS16, 32 and 34 on its consolidated financial statements and interim condensed financial statements. The amendments will be applied by the Company upon endorsement of these by the European Union but are not expected to have an impact on these parent company financial statements.

- **Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013)***. 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 "Consolidated Financial Statements" 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 for a calendar year–end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10 "Consolidated Financial Statements" , 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 Company is currently assessing the impact of the amendments on its parent company financial statements.

Revenue recognition

Revenues earned by the Company are recognised on the following basis:

a) Dividend income

Dividend is recognised when the right to receive payment is established.

b) Interest income

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

Foreign currency translation

a) Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is the Russian Rouble. However, the financial statements are presented in United States dollars (US$) ("the presentation currency") because this is the currency better understood by the principal users of the financial statements. The results and financial position of the Company are translated into the presentation currency using the official exchange rate of the Central Bank of the Russian Federation as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expense items at the average monthly rate (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 – 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.

Notes to the financial statements
continued

Current and deferred income tax

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

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

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

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

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

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

Dividend distribution

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

Property, plant and equipment

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

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

	Number of years
Motor vehicles	3–5

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

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

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

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

Investments in subsidiary undertakings

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The Company carries the investments in subsidiaries at cost less any impairment in its separate financial statements. 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. Interest is accrued on the fair value of deferred consideration at the discount 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

Ordinary shares are classified as equity.

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

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

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity 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.

Notes to the financial statements
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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 2011 the Russian Ruble has weakened against the US Dollar, which resulted in foreign exchange losses for the Company for the year ended 31 December 2011. During the first four months of 2012, Russian Ruble has strengthened against the US Dollar, however starting from May, the value of Russian Ruble against the US Dollar depreciated. In the second half of 2012, Russian Ruble has partially recovered its value. Such fluctuations in combination with increased US Dollar denominated cash balances resulted in foreign exchange gains recognized by the Company in the year ended 31 December 2012.

Carrying amounts of monetary assets and liabilities denominated in US dollars as at 31 December 2012 and 31 December 2011 are as follows:

	2012 US$'000	2011 US$'000
Assets	**112,200**	69,527
Liabilities	**67**	4

Had US dollar exchange rate strengthened/weakened by 15% against the Russian Rouble and all other variables remained unchanged, the post-tax profit of the company for the year ended 31 December 2012 would have increased/decreased by US$15,138 thousand (2011: 15% change, effectUS$9,386 thousand). This is mainly due to foreign exchange gains and losses arising upon retranslation of accounts receivable, restricted cash and cash and cash equivalents denominated in US dollars.

The Company's current policy is not to hedge this foreign exchange risk.

b) Cash flow and fair value interest rate risk

All of the Company's interest bearing financial instruments are at fixed interest rates. As a result, the Company is exposed to fair value interest rate risk. However, as all of the Company's fixed interest rate financial instruments are carried at amortised cost, any reasonably possible change in the interest rates as of 31 December 2012 and 31 December 2011 would not have any impact on the Company's post tax profit or equity.

c) Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of loans and other receivables (Note 17), restricted cash (Note 18) and cash and cash equivalents (Note 18).

The majority of loans and other receivables are balances with related parties.

The majority of bank balances are held with independently rated parties with a minimum rating of 'B'. These enables the Company to reduce its credit risk significantly.

The carrying amount of accounts receivable represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company.

As of 31 December 2012 and 31 December 2011 none of the loans and other receivables, cash and cash equivalents or restricted cash were past due or impaired.

d) Liquidity risk

As at 31 December 2012, the Company has a negative net working capital of US$89,578 thousand (2011: surplus of US$43,346 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.

Notes to the financial statements
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The table below summarizes the analysis of financial liabilities of the Company by maturity as of 31 December 2012 and 31 December 2011. 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$'000	**Total US$'000**
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**
As of 31 December 2011				
Trade and other payables[1]	97	199	–	296
Financial guarantee contracts[2]	114,005	97,590	26,738	238,333
	114,102	97,789	26,738	238,629

[1] Trade and other payables exclude statutory liabilities as the analysis is provided for financial liabilities only
[2] The maximum possible amount of obligation under financial guarantee contracts is disclosed at the earliest time it may be called.

e) Capital risk management

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

Defining capital, the Company uses the amount of net assets attributable to the Company's shareholders and the Company's borrowings. No external requirements are imposed on the capital of the Company.

The Company manages the capital based on borrowings to total capitalization ratio.

To maintain or change capital structure the Company may vary the amount of dividend paid, or sell assets in order to reduce debts. Management believes that the current equity is sufficient to fund current projects and further development of the Company.

Total capitalization is calculated as the sum of the total borrowings and net assets at the date of calculation. The management does not currently have any specific target on the rate of borrowings to total capitalization.

As at 31 December 2012 and 31 December 2011 the Company's borrowings amounted to US$ Nil.

f) Fair value estimation

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

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

Financial assets carried at amortised cost

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

Liabilities carried at amortised cost

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) *Critical accounting estimates*

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 2012, the carrying amount of an investment in subsidiary in the separate financial statements exceeded the carrying amount in the consolidated financial statements of the Company's net assets, including goodwill and the dividend received from this subsidiary during the year ended 31 December 2012 exceeded the total comprehensive income of the subsidiary for the period for which the dividend was declared. These suggested the existence of impairment indicators for this investment in subsidiary.

   Management has assessed that in view of the fact that the acquisition of LLC Ferrotrans gives 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 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 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, 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 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 CGU operates.

   For projections prepared for open wagon/operator's services group of CGUs, terminal growth rate of 3% and the discount rate of 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 its carrying amount. Management believes that any reasonably possible change in the key assumptions on which these unit's 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 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 year, the following transactions were entered into with subsidiaries:

Notes to the financial statements
continued

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.

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

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

4. 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 21.

5. REVENUE

	2012 US$'000	2011 US$'000
Interest on loans to related parties (Note 21)	**7,132**	9,659
Dividend income (Note 21)	**137,879**	113,572
Total	**145,011**	123,231

6. OTHER GAINS/(LOSSES) – NET

	2012 US$'000	2011 US$'000
Net foreign exchange transaction gains/(losses) on non-financing activities (Note 11)	**71**	(4,151)
Amortisation of financial guarantees (Note 21)	**951**	1,114
Other gains/(losses) – net	**1,022**	(3,037)

7. EXPENSES BY NATURE

	2012 US$'000	2011 US$'000
Statutory auditor's remuneration for audit services	**595**	444
Advertising and marketing expenses	**103**	96
Office rent	**59**	63
Depreciation of property, plant and equipment (Note 13)	**11**	12
Employee benefit expense (Note 8)	**398**	362
Legal, consulting and other professional services[1]	**2,115**	977
Bank charges	**37**	19
Non-executive directors' fees (Note 21)	**236**	232
Travel expenses	**750**	513
Profit on sale of property, plant and equipment	**–**	(5)
Stock exchange and financial regulator fees	**85**	41
Other expenses	**343**	249
Total selling and marketing costs and administrative expenses	**4,732**	3,003

[1] Includes US$8 thousand in fees paid to the Company's statutory auditor for non-audit services.

8. EMPLOYEE BENEFIT EXPENSE

	2012 US$'000	2011 US$'000
Wages and salaries	**372**	345
Social security costs	**26**	17
Total employee benefit expense	**398**	362

9. FINANCE COSTS – NET

	2012 US$'000	2011 US$'000
Finance income:		
Interest on bank balances	**2**	12
Interest on bank deposits	**1**	12
Total interest income	**3**	24
Net foreign exchange transaction losses on cash and cash equivalents, loans and dividends receivable (Note 11)	**3,758**	(2,040)
Total finance income	**3,761**	(2,016)
Finance costs:		
Interesst expense on payables to related parties (Note 21)	**(8,242)**	–
Gain on re-measurement of financial liability (Note 21)	**3,755**	–
Net foreign exchange transaction losses on financial liabilities (Note 11)	**(96)**	–
Total finance costs	**(4,583)**	(2,040)
Total finance costs – net	**(822)**	(2,016)

Notes to the financial statements
continued

10. INCOME TAX EXPENSE

	2012 US$'000	2011 US$'000
Current tax:		
Withholding tax on dividends receivable	**4,330**	4,282
Corporation tax – current year	**369**	201
Corporation tax – prior year	**–**	(33)
Special contribution for defence	**–**	1
Total tax expense	**4,699**	4,451

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

	2012 US$'000	2011 US$'000
Profit before tax	**140,479**	115,175
Tax calculated at the applicable tax rate of 10%	**14,048**	11,518
Tax effect of expenses not deductible for tax purposes	**1,263**	256
Tax effect of allowances and income not subject to tax	**(14,942)**	(11,573)
Foreign withholding tax on dividends receivable	**4,330**	4,282
Overstatement of prior year tax charge	**–**	(33)
Special defence contribution	**–**	1
Tax charge	**4,699**	4,451

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

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

11. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2012 US$'000	2011 US$'000
Finance income/(costs) – net (Note 9)	**3,662**	(2,040)
Other gains/(losses) (Note 6)	**71**	(4,151)
Total foreign exchange gains/(losses)	**3,733**	(6,191)

12. DIVIDENDS

No interim dividends were declared by the Board of Directors during the year ended 31 December 2012.

Dividends paid in 2012 and 2011 relating to profits of 2011 and 2010, amounted to US$98,878,986 (US$0.64 per share) and US$58,510,147 (US$0.37 per share) respectively.

At the Annual General Meeting which will take place in May 2013, the Board of Directors of the Company will recommend a payment of dividend in relation to 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. 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 2013.

13. PROPERTY, PLANT AND EQUIPMENT

	Motosr vehicles US$'000	Total US$'000
At 1 January 2011		
Cost	57	57
Accumulated depreciation	(21)	(21)
Net book amount	36	36
Year ended 31 December 2011		
Additions	13	13
Depreciation charge	(12)	(12)
Closing net book amount	37	37
At 31 December 2011/1 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		
Cost	**58**	58
Accumulated depreciation	**(32)**	(32)
Net book amount	**26**	26

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

	2012 US$'000	2011 US$'000
Net book amount	–	–
Gain on sale of property, plant and equipment (Note 7)	–	5
Consideration from sale of property, plant and equipment	–	5

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

	2012 US$'000	2011 US$'000
Cash consideration received within year	–	5
	–	5

14. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2012 US$'000	2011 US$'000
At beginning of year	**585,749**	541,958
Acquisition of additional interest in subsidiaries	**–**	81,700
Contribution into the capital of subsidiary	**47,630**	–
Additions (Note 21)	**526,493**	–
Indemnity receivable for the losses of the subsidiary (Note 21)	**–**	(6,345)
Currency translation differences	**84,179**	(31,564)
At end of year	**1,244,051**	585,749

In July 2012, the Company has entered into the agreement for the acquisition of 100% interest in LLC Ferrotrans with OJSC New Forwarding Company (NFC) (Note 21). In accordance with the accounting policy of the Company, the cost of the acquisition was determined as the fair value of the share of LLC 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 LLC 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 31 May 2013.

At the time of the acquisition of LLC MMK-Trans, the Company has entered into the call option agreement for the acquisition of 52.5 per cent of OJSC Uralwagonrepair Company (UWC), a company offering railcar repair services. Effective interest of 47.5 per cent of UWC is controlled by MMK-Trans and formed part of the acquisition. The option is exercisable after the completion of the acquisition of MMK-Trans and expires on 18 December 2013. The fair value of the option agreement as at 31 December 2012 is nil.

Notes to the financial statements
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Details of the direct and indirect investments in the subsidiary undertakings are as follows:

Name	Status	Country of incorporation	Principal activities	Effective % interest held 2012	2011
New Forwarding Company, OJSC	Subsidiary	Russia	Railway transportation	**100**	100
Sevtekhnotrans, OOO	Subsidiary	Russia	Railway transportation	**100**	100
Ferrotrans, LLC	Subsidiary	Russia	Railway transportation	**100**	–
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, LLC *(100% subsidiary of Ultracare Holdings Ltd)*	Subsidiary	Russia	Railway transportation	**60**	60
RemTransServis, OOO *(99% subsidiary of BaltTransServis, LLC)*	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

On 18 December 2012 the Company has signed an agreement to acquire 100 per cent interest in LLC 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. These funds are treated as restricted cash and are classified as a current asset based on the estimated remaining length of the restriction. The funds are expected to be released to the vendor at completion of the acquisition.

The acquisition was completed on 11 February 2013 (Note 23).

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 2011	Loans and receivables US$'000	Total US$'000
Financial assets as per balance sheet		
Loans and other receivables[1]	112,418	112,418
Cash and cash equivalents	44,788	44,788
Total assets	157,206	157,206

	Financial liabilities measured at amortised cost US$'000	Other financial liabilities US$'000	Total US$'000
Financial liabilities as per balance sheet			
Payables and accrued expenses	325	–	325
Financial guarantees[2]	–	3,056	3,056
Total liabilities	325	3,056	3,381

(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:

	2012 US$'000	2011 US$'000
Counterparties without external credit rating		
Group 1	**45,842**	112,418
	45,842	112,418

Cash at bank and short-term bank deposits Agency	Rating	**2012 US$'000**	2011 US$'000
Moody's*	Aa1	**–**	88
Moody's*	Aa3	**99**	–
Moody's*	A2	**28,133**	44,593
Moody's*	Baa1	**63,184**	–
Moody's*	Ba2	**–**	107
Moody's*	B3	**56**	–
Total cash at bank and short-term bank deposits		**91,472**	44,788

* International rating agency Moody's Investors Service.

Group 1 – Related party loans and other receivables from related parties

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

	2012 US$'000	2011 US$'000
Loans to related parties (Note 21)	**45,842**	112,418
Prepayments – third parties	**9**	10
Prepayments – related parties (Note 21)	**7**	6
Total loans and other receivables	**45,858**	112,434
Less non-current portion:		
Loans to related parties (Note 21)	**40,151**	110,294
Total non-current portion	**40,151**	110,294
Current portion	**5,707**	2,140

The weighted average interest rate on loans receivable from related parties was 8.00% at 31 December 2012 (31 December 2011: 8.39%). Non-current receivables mature by 31 December 2018.

The fair values of current other receivables approximate their carrying amounts.

Notes to the financial statements
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The fair values of non-current loans are as follows:

	2012 US$'000	2011 US$'000
Financial assets		
Loans to related parties	**36,644**	98,937
Total financial assets	**36,644**	98,937

There are no impaired or past due assets within loans and other receivables. Trade and other receivables are impaired only when there is an indication that the counterparty is unable to repay the balance.

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

	2012 US$'000	2011 US$'000
US Dollars	**45,842**	24,744
Russian Roubles	**7**	87,680
Euro	**9**	10
Total financial assets	**45,858**	112,434

18. CASH AND CASH EQUIVALENTS

	2012 US$'000	2011 US$'000
Cash at bank	**30,448**	44,788
Short term bank deposits	**61,024**	–
Total cash and cash equivalents	**91,472**	44,788
Restricted cash	**10,000**	–
	101,472	44,788

The effective interest rate on short term bank deposits 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:

	2012 US$'000	2011 US$'000
Cash and cash equivalents	**91,472**	44,788
	91,472	44,788

Cash and cash equivalents are denominated in the following currencies:

	2012 US$'000	2011 US$'000
US Dollars	**56,358**	44,783
Russian Roubles	**35,110**	–
Euro	**4**	5
Total cash and cash equivalents	**91,472**	44,788

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 LLC 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 2011/31 December 2011/1 January 2012	**158,135,533**	**15,814**	**621,227**	**637,041**
Incremental costs directly attributable to the issue of new shares	–	–	(9,684)	(9,684)
Sale of treasury shares/issue of new shares	20,605,383	2,061	337,928	339,989
At 31 December 2012	**178,740,916**	**17,875**	**949,471**	**967,346**

As at 31 December 2012 the total authorised number of ordinary shares is 233,918,128 shares with a par value of US$0.10 per share (2011: 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.

20. PAYABLES AND ACCRUED EXPENSES

	2012 US$'000	2011 US$'000
Current		
Provision for issued guarantees (Note 21)	**2,269**	3,056
Payables to related party (Note 21)	**193,529**	–
Other payables to third parties	**273**	126
VAT payable	**112**	–
Accrued expenses	**225**	199
Total current trade and other payables	**196,408**	3,381

The fair value of payables which are due within one year approximates their carrying amount at the balance sheet date.

21. RELATED PARTY TRANSACTIONS

Until 17 July 2012, the Company 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 17 July 2012. Further, the Directors of the Company controlled 0.1% of the Company's shares through their holdings of GDRs with the remaining 35.3% of the shares representing the free market-float. Until 17 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 on 17 July 2012, the Group no longer has an ultimate controlling party. Following the above event as well as the additional sale of shares of the Company by TIHL in October 2012 shares held by its major shareholders, TIHL and EIL together with their affiliated entities as at 31 December 2012 are 34.5% and 10.8% respectively. 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 of the Company 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 the Parent of the Company until 17 July 2012 and an entity with significant influence over the Company thereafter.

The following transactions were carried out with related parties:

a) Loans to related parties

	2012 US$'000	2011 US$'000
Loans to subsidiaries:		
At beginning of year	**112,418**	118,495
Loan advances	**85,562**	23,330
Interest charged (Note 5)	**7,132**	9,659
Loan repaid during the year	**(157,136)**	(18,013)
Interest repaid during the year	**(6,658)**	(7,980)
Net foreign exchange	**4,524**	(13,073)
At end of year	**45,842**	112,418
Consists of:		
Non-current portion	**40,151**	110,294
Current portion	**5,691**	2,124
At end of year	**45,842**	112,418

The balances at the yearend carry a weighted average interest rate of 8.00% (2011: 8.39%) per annum and are payable by December 2018.

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b) Loans from related parties

	2012 US$'000	2011 US$'000
Loans from subsidiaries:		
At beginning of year	–	–
Loan advances	90	–
Loan repaid during the year	(90)	–
At end of year	–	–

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

	2012 US$'000	2011 US$'000
Dividend income from related parties:		
Subsidiaries	137,879	113,572
Total	137,879	113,572

d) Year end balances with related parties

	2012 US$'000	2011 US$'000
Receivables from and prepayments to related parties:		
Companies under control of TIHL – prepayments	7	6
Total receivables from and prepayments to related parties (Note 17)	7	6
Receivables from related parties:		
Current	7	6
Total receivables from related parties (Note 17)	7	6

	2012 US$'000	2011 US$'000
Payables to related parties:		
Subsidiary	193,529	–
Total payables to related parties (Note 20)	193,529	–
Payables to related parties:		
Current	193,529	–
Total payables to related parties (Note 20)	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 is payable by 31 May 2013.

e) Interest income and expenses

	2012 US$'000	2011 US$'000
Interest income:		
Subsidiaries	7,132	9,659
Total interest income	7,132	9,659
Other interest expense:		
Subsidiaries	(8,242)	–
Gain on re-measurement of financial liability		
Subsidiaries	3,755	–
Total interest expense	(4,487)	–

Interest expense to subsidiary relates to the interest accrued on deferred consideration payable to OJSC New Forwarding Company for the acquisition of LLC Ferrotrans and consists of US$1,776 thousand 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$6,466 thousand 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).

f) Purchases of services

	2012 US$'000	2011 US$'000
Purchases of services from related parties:		
Companies under control of TIHL	**60**	14
Total	**60**	14

g) Directors' remuneration

	2012 US$'000	2011 US$'000
Directors' fees	**236**	232
Emoluments in their executive capacity	**155**	165
Total directors' remuneration	**391**	397

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:

	2012 US$000	2011 US$000
Subsidiaries[(1)]	**870,531**	235,406
Total guaranteed obligations	**870,531**	235,406

(1) Represents the maximum amount of obligation under each contract, being the contractual undiscounted cash flows under the loan agreements as at 31 December 2012 and 2011.

During the year ended 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. The fair values of such guarantees are amortised through the income statement (2012: US$951 thousand; 2011: US$1,114 thousand). As at 31 December 2012 the unamortised balance of the guarantees is US$2,269 thousand (2011: US$3,056 thousand) and is included in other payables.

i) Indemnity for the losses of the subsidiary

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

j) 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 2013. 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.

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.

22. CONTINGENCIES

Operating environment of the Company

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

The Russian Federation displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations.

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

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.

23. EVENTS AFTER THE BALANCE SHEET DATE

On 12 February 2013, the Company has completed the purchase of 100 per cent of the share capital of LLC MMK-Trans for a cash consideration of US$250 million assuming net debt and working capital of US$85 million and no capital commitments. Final purchase price will be determined based on actual values of net debt and working capital and it is expected that such final purchase price will be determined by the end of April 2013. The core business of MMK-Trans is to manage rail logistics of MMK, one of the largest single-site steelmakers in Russia, using its owned and leased-in railcar fleet as well as the fleet engaged from third-party operators.

For the purposes of financing the acquisition of MMK-Trans the Company attracted the term credit facility in the amount of US$190 million denominated in Russian rubles at the fixed interest rate with maturity of three years. The credit facility is secured by a pledge of rolling stock of New Forwarding Company and pledge of 100 per cent share in LLC MMK-Trans.

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

Independent Auditor's Report on pages 7 to 8.

Appendix 3

Shareholder information and key contacts

Shareholder structure

The issued share capital of Globaltrans consists of 178,740,916 ordinary shares with a nominal value of USD 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 as of March 2013	
Maple Valley Investments[1]	11.5%
Onyx Investments[1]	11.5%
Marigold Investments[1]	11.5%
Envesta Investments Limited[2]	8.8%
Other entities controlled by Directors and management of Globaltrans[3]	2.2%
Free float	54.5%

1. Konstantin Nikolaev, Nikita Mishin and Andrey Filatov each hold 11.5% of Globaltrans' ordinary share capital 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, a leading container and oil products terminal operator servicing Russia's cargo flows which is also listed on the London Stock Exchange.
2. Beneficially owned by Sergey Maltsev, Chief Executive Officer and Executive Director of Globaltrans, and Alexander Eliseev, Non-Executive Director of Globaltrans. Mr. Maltsev and Mr. Eliseev are co-founders of Globaltrans.
3. Including 2.0% held by Litten Investments Ltd, a company beneficially owned by Alexander Eliseev, Non-Executive Director of Globaltrans.

Key contacts

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You can find other useful information at our corporate website including latest news and presentations, events calendar, historical selection of financial and operational information, share price data and other information on Globaltrans and its performance.

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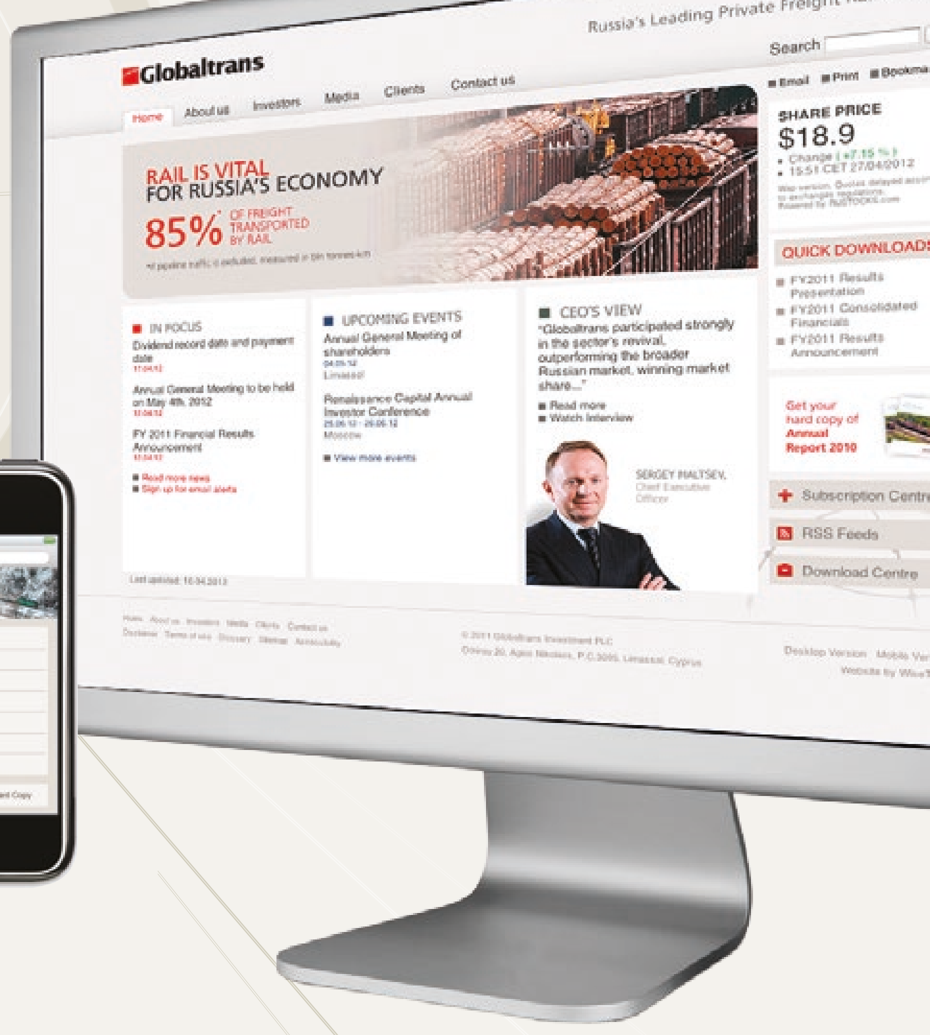

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